The Business Advocate Magazine

Nation's Business

February 1983

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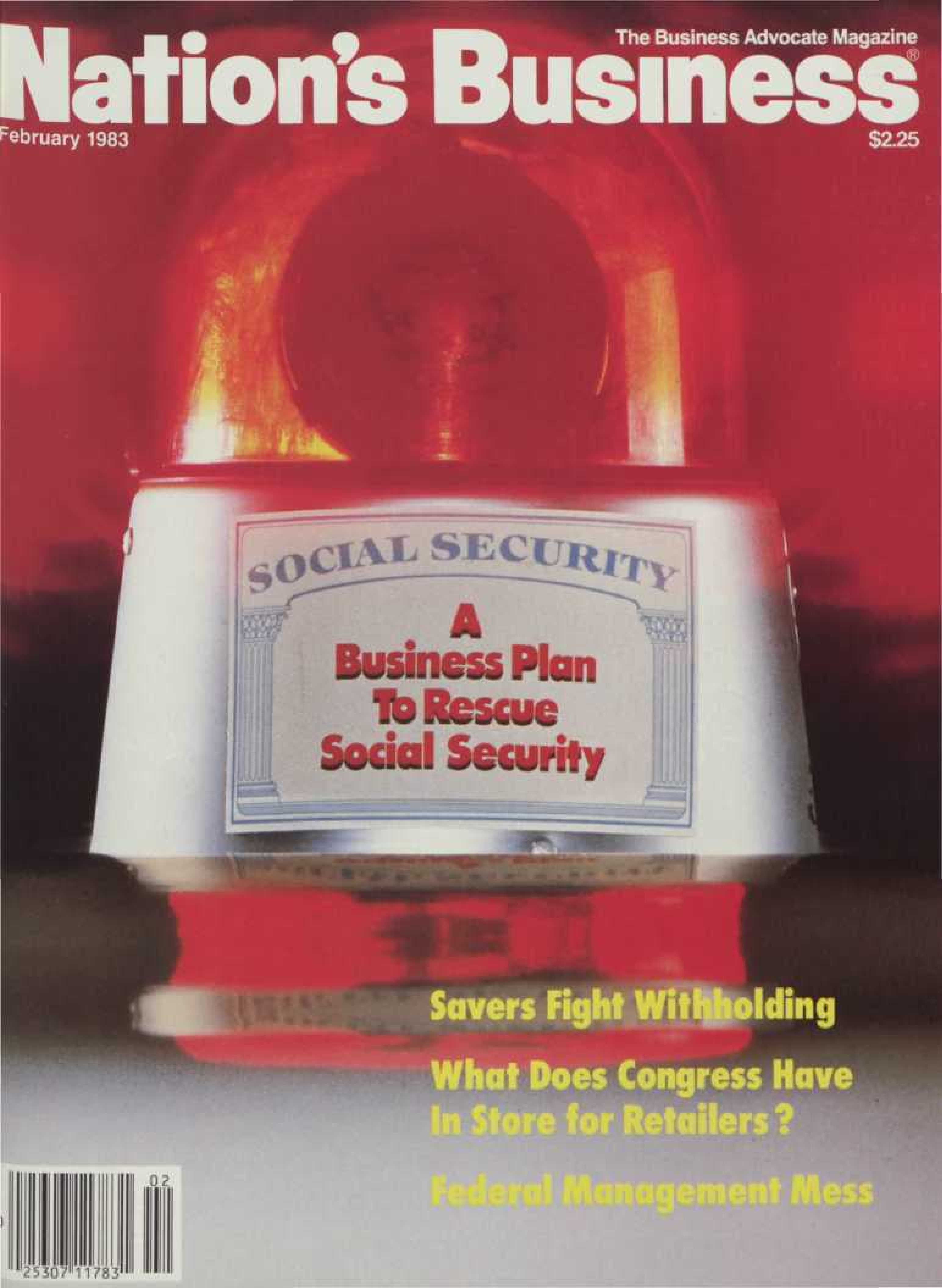

Savers Fight Withholding

What Does Congress Have In Store for Retailers?

Federal Management Mess

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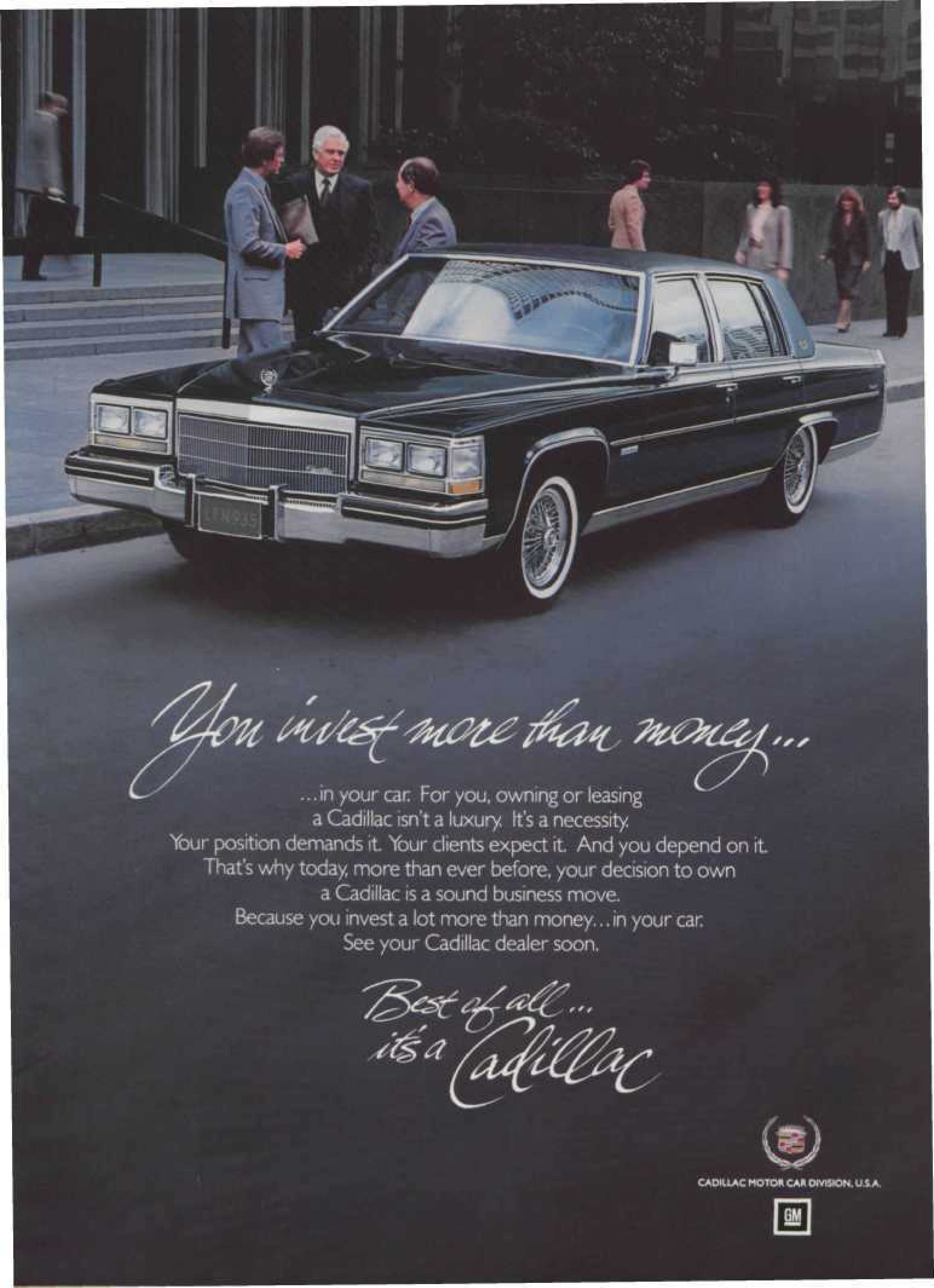
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Departments

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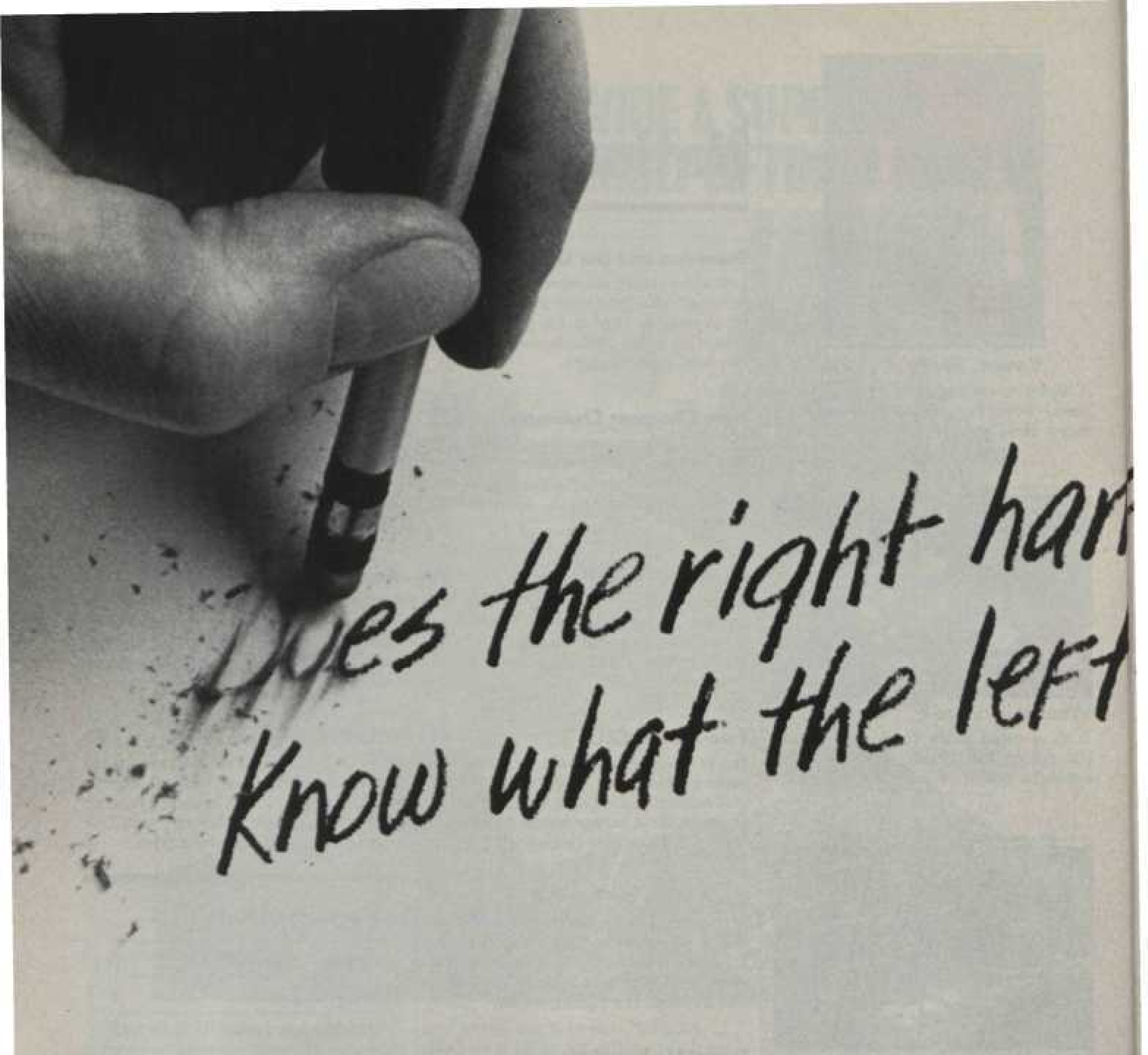
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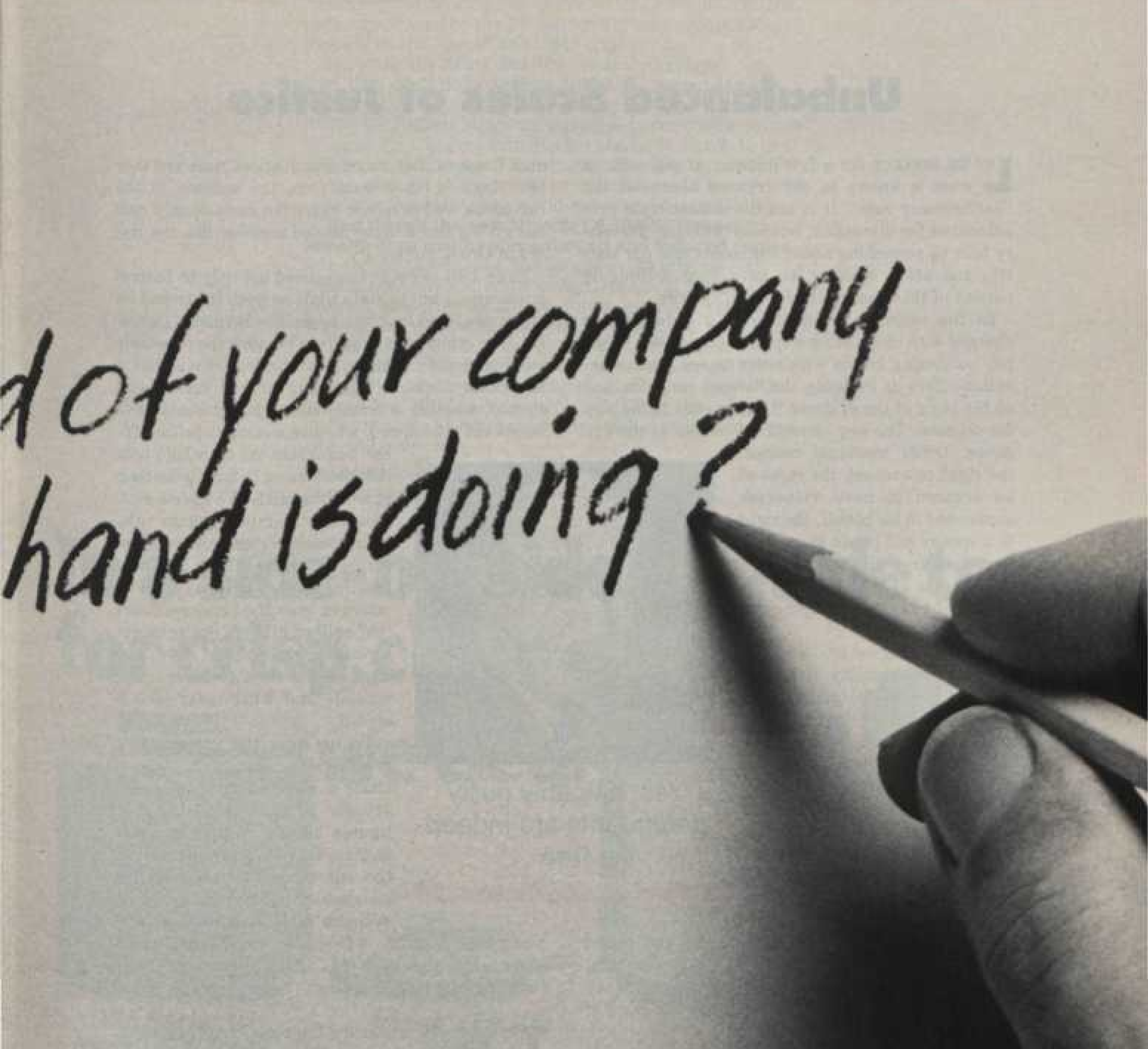

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BY JAMES J. KILPATRICK

Unbalanced Scales of Justice

LET US REFLECT for a few minutes, if you will, on what is known in our criminal courts as the "exclusionary rule." It is not the sexiest topic ever submitted for discussion, but bear with me. The story tells us something about our courts and our society, and about whither we have been drifting in pursuit of that elusive ideal we call "justice."

In the ordinary criminal trial, a defendant is charged with committing a specific crime—for example, possessing heroin with intent to sell. The prosecution offers its evidence, the defense responds, and on the basis of the evidence the case goes to the jury for decision. The key element, of course, is the evidence. Other elements matter: the right to counsel, the right of an accused to have witnesses summoned in his behalf, the right to a speedy and public trial by an impartial jury—all these figure in due process of law, but it is the matter of evidence that concerns us here.

The gathering of evidence is a primary responsibility of the arresting and investigating officers. Until 1914 or thereabouts, not much attention was paid to the manner in which evidence was acquired. But a little before Christmas in 1911, federal marshals in Missouri had gotten wind of a report that one Fremont Weeks was distributing lottery tickets by mail. Without obtaining a warrant, the marshals broke down the door of Weeks' home and seized everything they could lay their hands on, including several letters that were admitted as evidence against him at his subsequent trial. On the basis of this evidence, he was found guilty.

Yes, palpably guilty defendants are indeed set free . . .

Weeks appealed, arguing that evidence so obtained could not be used against him without violating his Fourth Amendment rights. In February, 1914, the U.S. Supreme Court unanimously agreed: The evidence should have been excluded. Said Justice William R. Day: "The tendency of those who execute the criminal laws of the country to obtain conviction by means of unlawful seizures and enforced confessions . . . should find no sanction in the judgments of the courts."

That was the beginning of the exclusionary rule, and if successive Justices had been content to apply the ringing principles propounded by Justice Day in *Weeks*, no controversy might have grown. The Fourth Amendment, after all, traces its lineage directly to the Magna Charta; it stands with the writ of habeas corpus as one of the great bulwarks of human freedom. But successive Justices were not content. Instead, they went from the sublime to the ridiculous, and in recent years the exclusionary rule has grown into a many-headed monster like the Hydra of Greek mythology.

Since 1961 the rule has applied not only to federal prosecutions but to state trials as well. It has had an effect predicted long ago by Justice Benjamin Cardozo: "The criminal is to go free because the constable has blundered." Judges have divided on whether a particular "opaque" package should have been opened, whether a certain zipper jacket could have been validly unzipped, whether a campus police officer was inside the threshold of a dormitory room or merely leaning against the jamb. We have a suitcase rule, a station wagon rule, an automobile exception rule and a rule of "plain view." So many bewildering opinions have emerged from the Supreme Court that neither officers nor prosecutors nor trial judges have any clear idea of what evidence is admissible and what must be excluded.

To be sure, the exclusionary rule figures directly in only a small number of criminal cases actually brought to trial, but it figures heavily on appellate calendars. There is no evidence that the rule actually deters police misconduct, but there is abundant evidence of the Cardozo effect: Yes, palpably guilty defendants are indeed set free on technical objections that are light-years removed from the Fourth Amendment.

THIS past November the Supreme Court agreed to hear arguments in an Illinois case involving defendants charged with trafficking in marijuana. The exclusionary rule had kept material evidence—namely 350 pounds of marijuana—from ever getting to the jury. The Court will consider whether evidence should be excluded when it was acquired "in the reasonable belief" that the methods used to obtain it were valid.

Maybe we drift back toward common sense. Over the past quarter century a whole body of law has grown up by which the rights of the victim have been subordinated to the supposed rights of an accused. In the process, the concept of justice has been mislaid. No reasonable person would want to see our police once again armed with the pre-1914 rule of "anything goes," but it is long past time to balance those eternal scales of the criminal law. □

Interest-Free Loans Under More Fire

By John Hanly Adams

For years the Internal Revenue Service has been sniping at interest-free loans, claiming that the lender owes gift tax (in a parent-to-child transaction) or the borrower owes income tax (in a corporation-to-individual loan).

Courts usually have sided with the taxpayers, reasoning that taxable benefits are not involved when the loan is properly set up. But recently court decisions have favored the IRS, making careful planning and record-keeping on such loans even more vital.

One case (*Dickman v. U.S.*) involved substantial interest-free loans from a married couple to a son and a family corporation. The U.S. Court of Appeals for the 11th Circuit held the loans to be gifts of the use of money, and the right to use money is a property right subject to tax. This contradicted earlier precedents, creating an issue that only the Supreme Court can decide.

In another case, a Court of Claims judge ruled that an executive received taxable income, through an interest-free loan from his corporation, equal to the interest he would have had to pay an arm's-length lender. Earlier decisions on such loans had held that if the borrower were taxed on the imputed interest, he could deduct that interest from his taxable income, so the tax situation was a wash.

For many families, one reason for making a loan instead of an outright gift to a child or other dependent faded when Congress increased the limit on nontaxable gifts to $10,000 a year ($20,000 for a married couple) in the 1981 tax act. But interest-free company loans to executives became popular when interest rates soared. Now their tax status is more doubtful than ever.

Taxpayers' Rights

When the IRS socks it to you with a levy, lien or seizure to collect delinquent taxes, is there any restraint on its powers? The answer is some, but not much.

Under the 1982 tax law, the IRS must give written notice of intent to impose a levy on wages or property at least 10 days before the levy. Prior law did not require this notice.

Also, the exemption from a tax levy on pay and other income has risen from $50 a week plus $15 for each dependent to $75 a week plus $25 for each dependent.

On fuel, food, furniture and household goods the exemption has risen from $500 to $1,500; on books and trade tools from $250 to $1,000.

Same-Day Bond Swap

People often want to switch from low-interest bonds to higher-interest bonds and deduct the capital loss involved (the lower-interest bond is usually sold at a discount). You have to wait 30 days after selling before buying a replacement bond that is "substantially identical" to the bond you are selling, or lose the loss deduction.

But in a recent case the IRS approved the loss deduction in a same-day switch.

The taxpayer involved sold 7.5 percent Treasury bonds and immediately bought 8.75 percent Treasury bonds. The IRS said the bonds were materially different enough to allow for the loss deduction because they had different interest rates and maturity dates.

Deferred Pay Trap

Using the right plan, a company can provide its executives and other employes with deferred pay, collected after retirement, that is not subject to Social Security or unemployment tax. But the wrong approach can leave such pay subject to the increasing bite of payroll taxes.

Revenue Ruling 82-176, just issued, makes the point. The case involved a company officer who entered into an agreement with the company to have part of his salary deferred until his employment ended. He retired at 65. If his deferred pay had come through a nondiscriminatory plan open to all employes, or all of a certain group, it would have escaped payroll taxes. But it was provided under a specific agreement between the individual and the company. So the Social Security tax (and unemployment tax on the employer) applied. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific cases.*

What Others Are Claiming

Some idea of the deductions claimed by your fellow taxpayers can be helpful when you're making out an itemized return for 1982. These averages, for three major deductions—interest, taxes and contributions—reflect IRS data for 1980, latest available.

Adjusted Gross Income (In thousands)	Interest	Taxes	Contributions
$ 15-20	$ 2,591	$ 1,376	$ 582
20-25	2,718	1,719	615
25-30	3,004	1,997	666
30-50	3,510	2,725	893
50-100	5,532	4,866	1,770
100-200	9,843	9,639	4,605
200-500	18,790	20,101	13,361

Answers to the

IS CIGARETTE ADVERTISING A MAJOR REASON WHY KIDS SMOKE? NO.

Advertising is consistently ranked among the least important factors influencing college students to start smoking, according to a study by a professor of psychology who heads a prominent university research center.

That finding is typical. Because the fact is, cigarette advertising is not designed to induce people to start smoking, kids or anybody else. Its objective is to promote brand identification and brand loyalty among people who already smoke.

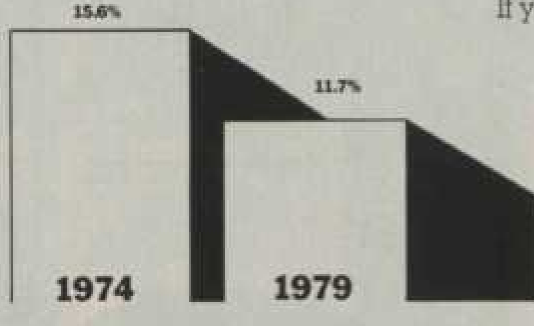
So why do kids start smoking? In a recent study of teenage smoking habits in which 1500 students were interviewed, the

most asked questions about cigarettes.

students themselves named peer pressure as the most important influence in the initiation of smoking.

In a statement submitted at a recent congressional hearing, a noted California psychologist said that smoking behavior is a complex behavior determined by the interaction of several influences. This expert concluded that no single factor determines smoking behavior all the time.

Whatever the reasons for smoking may be, research shows that the smoking rate among teenagers has declined in the last several years. According to an American Cancer Society report based on a Government-funded study, teenage male smoking rates have dropped by one third to the lowest level since 1964.



The relative decrease among teenage smokers was 25 percent during 1974-79.
Source: 1979 "Teenage Smoking" study for U.S. Department of Health and Human Services.

This study revealed that during 1974-79, the relative decrease in smoking rates among teenage males was 32 percent. Among teenage females, 17 percent. Overall (see chart), the relative decrease among teenagers was 25 percent.

A more recent study conducted for a Government agency showed continuing declines among teenagers through 1981.

We think that's good. Because we think kids should not smoke. Smoking is an adult custom based on mature and informed judgment.

If you'd like to know more about this and other issues, write for our free information kit, "Answers to the most asked questions about cigarettes." Address: The Tobacco Institute, Suite 821, 1875 Eye St., N.W., Washington, D.C. 20006.

We offer it in the belief that full and free discussion of this important public issue is in the public interest.

WEIGH BOTH SIDES BEFORE YOU TAKE SIDES.

WASH/E/1

Nation's Business

WASHINGTON LETTER

▶ WHITE HOUSE INITIATIVES on spending, jobs and taxes have underlying objective: to firm up President's image as strong leader. Administration strategists fear that events of last year may have created public impression of drift and indecision.

▶ NEW MEMBERS OF CONGRESS are not as predictable as some analysts have been suggesting. Although many of them got elected by running against Reagan economic policies, they do not automatically favor resumption of pre-Reagan policies either. Right now, moderation and pragmatism seem to characterize most of 81-person freshman class. Upcoming tough votes on budget and Social Security may help to sort things out ideologically.

▶ BALANCED BUDGET amendment to U.S. Constitution is back again, courtesy of Senate Judiciary Committee Chairman Strom Thurmond (R-S.C.). It passed Senate in 97th Congress but failed in House. Same thing may happen this year, because new House is even less conservative than its predecessor, whereas Senate is largely unchanged.

▶ SUPREME COURT may rule soon on two cases with enormous potential impact on business. One deals with alleged sex discrimination: May pension payments be smaller for female beneficiaries than for comparable males, on grounds that average female lives longer? The other concerns whether states may use "unitary" method for assessing income tax due from multinational corporations with operations in state. Method produces tax bills that affected companies assert are often much higher than can be justified by their actual in-state business activities. Billions of dollars are riding on these two decisions.

▶ WHAT HAPPENS to a congressman's staff when he resigns his seat, as Phil Gramm recently did? They remain on duty until vacancy is filled, providing routine constituent service under supervision of Clerk of the House. Four members of Gramm's staff resigned to support his attempt to be re-elected as a Republican after his fellow Democrats removed him from Budget Committee. The rest are still in old office, answering telephone as "Sixth District of Texas." If Gramm wins special election on February 12, he can have his staff back, but he is not likely to keep same office, since House office space is awarded on basis of seniority.

▶ ZIP CODES will expand to nine digits in October. Use of extra four numbers will be voluntary for business as well as individual mailers, says U.S. Postal Service. If Postal Rate Commission approves--as expected--volunteers will receive half-cent per-piece discount on first-class mail in batches of 500 or more. ZIP discount would be in addition to half-cent discount for presorting. Next rate increase? Probably early in 1984.

▶ CAUTIOUS OPTIMISM characterizes reaction of many experts toward latest Japanese trade-liberalization moves. "It's progress, but they haven't gone far enough," says U.S. Chamber's Ava Feiner. Japanese package includes reduction of duty on imported tobacco products, promise to reduce testing and certification requirements that often function as barrier to foreign goods,

and strengthening of trade ombudsman's office. U.S. officials are disappointed that Japanese quotas for beef and citrus products were not increased. Trade climate has turned ugly in recent years, with Europe and U.S. pressing hard for more open Japanese market.

▶ CATCH 22: Experts fear that Justice Department has gutted Paperwork Reduction Act. Office of Management and Budget was empowered by act to police issuance of new federal forms, etc. Section 3512 states that forms without OMB control number need not be obeyed. That provision was added so that citizens would know which impositions could be legally disregarded. But now Justice Department has ruled that information collection requirements specified in federal regulations are exempt. How can you tell exempt forms from unapproved forms? You can't.

▶ RAILROADS are now free to offer any type of trucking service. Restrictions requiring that such service be attached to or parallel to rail lines were dropped last month by Interstate Commerce Commission. Development should lead to expansion of "piggyback" operations, in which truck trailers ride rail cars for major part of haul.

▶ PENSION FUND managers will gain more freedom if rules change proposed by Labor Department goes through. Fund managers must now seek department approval to invest client's money in ventures even indirectly connected to client. Getting an exemption takes several months. Proposal would allow independent professional asset managers, such as banks and insurance companies, to make their own decisions on whether conflict of interest is a problem. Public hearing is scheduled for March 10.

▶ SON OF SNAIL DARTER. Interior Department reveals that it is pondering whether to add 363 birds, fish, mammals, reptiles and amphibians--vertebrates all--to its list of endangered and threatened species. Sixty-two of them are likely to make it soon, and two are already causing trouble. A large resort community development planned for southern Nevada is being held up by emergency protection extended to two species of small fish: the Ash Meadows pupfish and Ash Meadows speckled dace. May turn into important test case if developer proceeds anyway. Since no federal funds are involved in project, only sanction available is law barring "taking" of endangered species, and that provision was originally aimed at trophy hunters, not developers.

▶ LESS DETAIL on executive compensation would be required in proxy statements under change proposed by Securities and Exchange Commission. Cutoff point for reporting compensation would be raised to $60,000 from $50,000; individual reports would be required only for policy-makers and highest-paid five, value of contingent compensation would not have to be estimated, unrealized increases in value of stock options would not have to be reported, and perquisites--such as nonbusiness use of company aircraft--would be listed only when totaling $10,000 or more or 10 percent of cash compensation, whichever is higher.

▶ LABOR RELATIONS problems? Pitfalls for management to avoid are identified in new analysis of decisions made by National Labor Relations Board, compiled for U.S. Chamber of Commerce by panel of 20 experienced labor-relations lawyers. Study, covering hundreds of cases, also presents extensive documentation of pro-union bias in recent NLRB actions. Copies of report are available from Chamber at $15 each for 1-9, $13.50 for 10-24, and $12 for 25 or more. Ask for publication no. 6628, "Current Decisions of the National Labor Relations Board--Troubling Developments for the Business Community." Address: 1615 H Street, N.W., Washington, D.C. 20062, or phone (301)468-5128.

▶ IT'LL BE A LONG TWO YEARS. There are already more than 43 declared candidates for President in 1984 election, according to Federal Election Commission.

Controlling Health Costs

"What's Next on Health Cost Control" [November] overlooks one important means available to the private sector for containing health care costs: physicians' professional standards review organizations.

An increasing number of major firms in the United States, including Caterpillar, Deere and Motorola, are contracting with PSROs to ensure that employe services are cost-effective and medically necessary. With costs continuing to rise at such a dramatic rate, the private sector can ill afford to ignore physician watchdog groups that know medical waste when they see it.

DAVID SCHIMEL
Executive Director
New York County Health Services Review Organization
New York

The article did not discuss one area of health care delivery that is highly cost competitive—ambulatory or outpatient surgery. In fact, the Department of Health and Human Services, in Medicare regulations issued on Sept. 7, 1982, promoted its use. Under those regulations, a surgeon will be reimbursed the full 100 percent for certain surgical procedures.

Because outpatient surgery facilities do not have the overhead most hospitals incur, their fees may be as much as 50 percent less than those of a hospital for the same procedure.

ELEANOR LATIMER
Director of Marketing
Medical 21 Corporation
Dallas

Lamenting weak leadership

"How Your Company Can Avoid Weak Leadership" [November] overlooked several important aspects of the problem.

First, it is difficult to set up a board of directors' special supervisory oversight committee if the company is run by a weak leader.

Second, the article fails to advise the executive achiever on how to handle himself if caught under the thumb of a weak leader.

Finally, though it is an admired trait in an executive to stand up and fight for his beliefs and make decisions that put his job on the line, under weak leadership an assertive executive can lose his job by backing his beliefs, even when they are correct.

R. THEODORE MONCK, JR.
Dallas

Striking out

Your editorial "Why the Strike Should Be Out" [November] is correct, but it will be answered by letters that say, "You are out of touch with the 1980s," or "After 100 years of the unions' fighting economic injustice, you want to go right back to the era of the 60-hour week," and so on.

But none of the liberal congressmen or labor leaders will respond to what you actually said, because they cannot argue that it is a good thing to damage an economy. Therefore they have to argue some other question, not the one you raised.

WARREN P. SNYDER
Evanston, Ill.

The strike as a device for forcing economic reality on management and labor is a viable tool until the size and potential impact of either side threatens our overall economic health. Governmental attacks on monopolies have substantially limited the ability of managers to have such impact, but government has failed to take similar action against unions with nationwide memberships.

The national defense and the economy could survive almost any strike that was limited to a minority share of a given industry.

Governmental action against monopoly power must become a two-edged sword that guarantees that national interests will take precedence. Within such limits, strikes could be a rational and useful means of settling disputes.

T.F. SKEHAN
Indianapolis, Ind.

The wave of the future

Bouquets for your timely article ["The Work Force of the Future," November] on the high-technology wave and what industry must do to ride its crest.

Send letters to Editor, NATION'S BUSINESS, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

Although there is a growing number of positive signs that educational institutions and businesses are getting ready for the microelectronics revolution, there is still much to be done.

As a member of the Illinois State Board of Education's task force on education and employment, my new cry is: "We must train for tomorrow's jobs, not yesterday's."

David E. Baker
Executive Vice President
Illinois State Chamber of Commerce
Chicago

Royalty fees go to court

Re: "Hollywood and the Home Videotapers" [December].

The suit Universal City Studios brought against Sony Corporation regarding home videotapers is now before the Supreme Court. Universal's claim that "home videocassette recording is the only use of copyrighted movies and TV shows for which the copyright owners are not compensated" is a bunch of tripe.

Placing royalty fees on all video recorders and blank cassette tapes would be another consumer rip-off. The air waves are public domain. Anything beamed over these airwaves and into your home is public property. The movie people are paid generously for the right to broadcast their shows and at that point no longer have a right to impose additional fees on the viewers.

If royalty fees were imposed, who would share in them? Just the movie people, or the owners of all copyrighted shows, including news, sports and talk shows? And what about the people who might buy blank tapes for their personal video camera for use in taping family events? Will they have to subsidize the movie people?

Next, publishers will want to place royalty fees on copy machines and paper; after all, they could be used to copy copyrighted published materials.

E. Blaszak
Chicago

FASB's failings

This is in response to "Taking the Small Firm Into Account" and "A Private Group Whose Word Is Law" [December].

In the first article CPA Sandra Suran comments that the Financial Accounting Standards Board "does not give adequate consideration to the needs of private companies before issuing standards." The second article shows quite plainly why that is true.

The FASB's composition is not common to the universe of users of financial information. The membership does not represent constituencies beyond the accounting profession itself. Members who are not actually of the profession come from groups so allied to it they cannot be separated. Three members are from Big Eight accounting firms, two from major corporations in their fields, and one each from big government and a university.

FASB task forces I know of are made up of giants. A representative of a smaller firm is never included. Consequently, recommendations invariably load expenses on smaller firms, thereby giving larger operators competitive advantages.

When flaws are brought to its notice, the FASB's response is a polite acknowledgment by form letter. One is not invited to discuss or elaborate on a questionable item.

It is sad that we have unelected people, answerable to none but their cronies, passing rules that certainly have the force of law.

Garrett Redmond
President
Redmond's
San Francisco

Not a benefit at all

Re: "The Benefit Bonanza" [December].

Virtually all education and training provided by employers is clearly related to job performance and is an integral part of the job function. It should not be construed as an employe benefit. To view training of the work force to meet rapidly changing needs for new job knowledge and skills as a benefit is a regressive attitude and a barrier to economic development.

Robert L. Craig
Vice President, Government and Public Affairs
American Society for Training and Development
Washington

Sorry, no subs here

Re: "Shrinking a Stretcher of Dollars" [December].

Having spent 20 years of my life in the Navy's submarine service and being unaware of a submarine base in Maine, you can understand my shock on learning of it in your publication. The picture of the gate at the Maine base looks surprisingly like the one at Bangor, Wash., that I drove through many times during the two years I was stationed there.

Are the bases identical or was I on the wrong side of a continent for two years?

William J. Scott
Scotts Real Estate
Lake, Mich.

Editor's Note: There is no submarine base in Maine; the base pictured is indeed in Bangor, Wash. We regret the error.

We're doing what has to be done.

Danger– Handle With Care!

Love Canal dramatized the dangers of hazardous wastes. Business, government, and the insurance industry are showing that today's dumps need not be tomorrow's disasters.

In a modern, heavily-industrialized society, waste materials are abundant and, in some cases, dangerous. Toxic leftovers from many industrial processes can pollute the environment, contaminate the water, and threaten the public safety. And, let's face it, serious accidents have occurred.

Today, the combined efforts of legislators, regulators, responsible waste-generating companies, the insurance business, and a concerned public are being felt.

New laws and standards go a long way toward making sure that firms that produce, move, store, or dispose of dangerous substances do so with care. Government tests and inspections are meant to assure compliance and minimize risk. Concerned industries have developed new technology and methods for safe waste disposal. But with materials this potentially dangerous, the best of care may not prevent every accident.

Although any accident with hazardous substances is bad news, some accidents are worse than others. And more insidious. Sudden spills and fires are quickly found and remedies quickly applied. Liability insurance for those accidents has been available for some time. But the material we're talking

FINANCE

Arming the Banks for the Money Wars

Sen. John Heinz: Interest should be paid on reserves.

The high-interest bank and thrift accounts recently authorized by federal regulators—off to a fast start at many institutions—may get a lift from Congress.

Legislation introduced by Rep. Douglas Barnard (D-Ga.) and Sen. John Heinz (R-Pa.) would require the Federal Reserve System to pay interest on reserves held against deposits in the new accounts. That would make the accounts more competitive with money market funds, says Barnard.

Banks and thrifts must hold reserves of as much as 12 percent against the super NOW accounts (on a sliding scale) and 3 percent for money market deposit accounts maintained by businesses and organizations.

Having to hold noninterest-bearing reserves reduces what a bank can earn on the money deposited, thus limiting the interest it can offer depositors.

Red Light From IRS On Switch to Cash

If you have waited until now to change your accounting method from accrual to cash, you may have waited too long. The Internal Revenue Service—which must grant permission—appears to have put such switches on hold. Only companies without inventories are allowed to use the cash method. They may start with it and stay with it, or change from cash to accrual, without seeking IRS approval. But going from accrual to cash requires approval and, accounting professionals say, IRS is very slow to grant it these days.

"There has been no policy change," says IRS spokesman Wilson Fadely. "It is just that we are getting a lot more of these applications than usual, and it takes time to examine them properly."

There may not have been a formal change, says Donald C. Wiese of Touche Ross & Company, but applicants are becoming discouraged by long delays and by IRS requests for additional information.

"The indications are that they don't like the cash basis and that they will probably not allow it," concludes Wiese, who heads an accounting industry task force formed to negotiate with IRS on a range of policy problems.

Everyone agrees that the recession is behind the increase in applications for accrual-to-cash switches.

AGRICULTURE

Reports Resume, Accurate or Not

Under orders from Congress, the Agriculture Department is resuming publication of farm-sector financial reports it had dropped on grounds of questionable accuracy.

Issued quarterly, the reports gave estimates of farm-sector receipts, production costs and net farm income.

The department said the data involved could not be estimated with an acceptable degree of accuracy until fall of each year.

Critics of the move contended it was designed to curtail publicity about serious economic problems in the farm belt.

During Senate consideration of the department's budget late last year, Sen. Alan J. Dixon (D-Ill.) successfully proposed an amendment requiring the department to resume quarterly publication of the reports.

He said they had been issued routinely since the 1940s and had provided participants in the continuing debate over farm policy—Congress, farm organizations, individual farmers and agribusiness generally—with access to the same statistics.

Dixon held that, rather than ease concern over farmers' problems, failure to publicize the figures could heighten fears over what the future held for the agricultural sector.

The House accepted the Dixon amendment as part of the Agriculture Department's budget for fiscal 1983.

A Gain for Farmers On Migrant Rules

Farm owners and operators who hire migrant workers will no longer have to register with the Labor Department as farm labor contractors.

Congress included that provision in a bill revising the Farm Labor Contractor Registration Act.

The original bill was enacted in 1963 after reports of abuses by so-called crew leaders, independent operators who recruit farm workers and transport them from farm to farm. The crew leaders deal with the farm owners.

Over the years, however, the Labor Department interpreted the law as requiring many farm operators to register, subjecting them to penalties if they did not.

Farm groups protested that interpretation, under which individuals who owned or ran farms were considered the same as the transient crew leaders moving work forces from farm to farm.

The new law specifies that farm employers at "fixed sites" are not required to register. It defines farm labor contractors as individuals who recruit, hire and transport workers.

At the same time, the new law requires that farm employers, as well as the labor contractors, meet the law's standards on health, safety and housing of workers and on maintenance of payroll records.

The law also prohibits farm labor contractors from knowingly hiring illegal aliens.

Farm owners can now hire temporary workers without signing up with the Labor Department.

Picking a Poster for Small Business Week

More than 500 artists, many of them top-flight professionals at advertising agencies around the country, are competing this month for a $2,000 award and a free trip to Washington in a national poster contest sponsored by the Small Business Administration.

A panel of expert judges will choose the winning poster for the fifth annual Small Business Week, which will be celebrated May 8-14.

Last year's prize went to a 21-year-old New York City art student, Raymond Hata. His poster showed bees buzzing around a beehive colored like an American flag.

Hata's winning entry stirred up a small controversy last year. Some critics thought that it fell short on artistic grounds; others disliked the idea of depicting small business as small bees.

Raymond Hata's poster design pleased the Small Business Administration but not everyone else.

During Small Business Week, the SBA will honor several private citizens as especially effective advocates of small business.

Democrats Seek Ideas Through New Council

The Democratic National Committee has established a Small Business Council. Its task: to come up with ideas for legislation and policy changes to help the nation's small business operators. The council's ideas will probably turn up in the 1984 Democratic platform.

The Republican National Committee has no such council.

"It has become more the American dream to own your own business than to own your own home," says Rob Bender, 31, who conceived the council.

Bender, the son of a small business operator, is a 1973 Naval Academy graduate and a former Marine Corps officer and college football coach. He got the idea for the council, he explains, while working on the staff of the House Small Business Committee last year.

The council has 75 members from across the country and is chaired by Bernard Featherman, a Philadelphia specialty steel manufacturer.

"Our idea is not to talk about Reagan administration failures," says Bender, "but to come up with solutions. For instance, the government trains people to become carpenters or mechanics, but why not also train them to use those skills wisely as their own small business entrepreneurs?"

The council has been divided into eight task forces to deal with tax policy, capital formation, regulations and antitrust reform, urban and rural development, international trade, management assistance, innovation and technology, and winning government procurement contracts.

Bender expects the council will have an agenda worked out by June.

More Encouragement For Entrepreneurs

A broad federal policy must be developed to provide tax incentives, seed money, loans and guarantees to entrepreneurs, insists Karl H. Vesper, a nationally known expert on entrepreneurship.

Vesper, who is chairman of the department of management and organization at the University of Washington, says in a forthcoming report that "many federal policies have been fashioned to help small businesses, but it is too easy to neglect entrepreneurship or startups in doing so."

Entrepreneurs and small business operators are distinct, he says, "in that entrepreneurship refers to the process of creating a new business, whereas small business refers mainly to companies already established and ongoing."

He suggests that "entrepreneurship may receive short shrift because the constituency of entrepreneurs largely remains invisible until after they have already changed into small business operators."

The Vesper report notes that a federal agency—the Small Business Administration—and two congressional committees deal with small business, whereas entrepreneurs are ignored by the federal government.

Vesper urges that federal tax rules be revised to create greater incentives for entrepreneurs. He argues that the capital gains tax on money invested in a startup should be dropped to zero if the money is left in the new business for at least five years.

The report says "more effective public policy could encourage the more able and promising latent entrepreneurs to [create new businesses] with much higher chances for success."

Vesper's report was commissioned by Walter E. Heller International Corporation's institute for small business in Chicago.

A Reagan Victory Seen If He Runs Again

A survey of small business owners found that 61 percent of those responding believe President Reagan could be re-elected in 1984.

At the same time, 54 percent believe that Reagan administration policies have had a negative impact on their businesses and on the economy as a whole. Only 10 percent of the business people responding believe they are operating in an excellent business environment, and 75 percent think they will not be able to pass along all of their inflation-related costs to customers.

The small business division of Arthur Andersen & Company, the public accounting and consulting firm, sampled opinion late last year in the District of Columbia and nine surrounding counties in Maryland and Virginia.

Nearly all of the 315 owners of small and medium-sized businesses who replied to the survey say the market for their goods or services is expanding.

LABOR

No Science Fiction in Robots' Future

The auto industry pioneered robot use on assembly lines.

Robots in American industry are multiplying like rabbits. By 1995 an estimated 315,000 robots will be in use, many of them helping to make new robots.

In 1972 U.S. manufacturers used fewer than 1,000 robots; in 1980 the count was up to 5,093, a growth rate of 24 percent a year.

Predicasts, a market research firm in Cleveland, predicts 30,000 units in place by 1985, with material-handling (primarily machine-loading) robots the most prevalent. The firm forecasts that robotic industry sales will increase from $89 million in 1980 to $600 million in 1985 and $4 billion in 1995.

Greatest growth—42 percent a year—during the next decade is expected in arc-welding robots and assembly robots.

Predicasts reports electrical/electronic manufacturers will show the biggest increase in robots through 1995, using them for assembly, inspection and material handling. Aerospace companies, currently using robots for parts finishing and coating, are expected to be the next fastest-growing segment.

In the 1970s, the auto industry had 40 percent of all robots in use. That share is expected to drop to 14 percent by 1995, although the industry will continue to add robots to its assembly lines.

A Busy Year For Wage Negotiations

Collective bargaining will be heavy this year. The Bureau of Labor Statistics reports 3.6 million workers under contracts expiring in 1983.

Many workers are scheduled for deferred wage increases that were negotiated in prior years. These deferred increases will average 6.1 percent in 1983, according to the BLS.

Increases in 1983 will differ, however, depending on the year in which agreements were negotiated. For example, the average increase for agreements negotiated in 1981 will be 6.7 percent, compared with 5.8 percent for those negotiated in 1982.

Approximately 3 million workers may receive wage increases under cost-of-living adjustment clauses. But their deferred increases will average 2.4 percent, compared with 7.2 percent for workers not covered by COLA clauses.

The BLS data cover all private industry bargaining units with at least 1,000 employes—a total of 8.5 million workers.

Of the more than one third of those workers scheduled for new contracts in 1983, many are construction workers because of the high incidence of short-term contracts negotiated in that industry last year.

Other expiring contracts cover workers in the tobacco, glass, copper, steel, aluminum, telephone and aerospace industries, as well as longshoremen on the East and Gulf coasts and workers in food stores.

ENERGY

Radiation-Free Nuclear Power

A major effort to develop radiation-free nuclear power is under way.

Bogdan C. Maglich, a nuclear physicist and president of New York-based United Sciences, Inc., is directing the private research project. "The process is a strong new contender in the search for a truly benign energy source," says Maglich, who received a White House citation in 1961 for his discovery of a subatomic particle.

Known as the migma concept, the process involves the chain-splitting of light nuclei, using hydrogen, lithium and boron as the fuels.

Since the migma concept's nuclear reaction is free of neutrons, it contains "none of the destructive and dangerous side effects inherent in all other nuclear fission and fusion processes now under development," Maglich explains.

Energy Department officials have turned down Maglich's requests for money because they have not believed the concept held promise. But since 1973 Maglich has spent about $10 million from other sources to demonstrate that the migma concept is technically feasible.

He says that about $30 million more would advance the project to the commercial application stage, and he is now trying to raise that sum.

In the scientific community, there is widespread skepticism on technical grounds about Maglich's project.

A Clouded Future For Solar Energy

The federal government will offer some $41 million in low-cost loans and grants to homeowners this year for buying and installing solar energy systems. But the program may not do much to stimulate the depressed solar equipment market.

The Department of Housing and Urban Development's solar energy and energy conservation bank is expected to issue the first loans and grants within the next month or two. HUD has until September 30 to disburse the money, since the bank will expire on that date. Homeowners' income levels will determine whether they qualify for loans or for grants.

R. Nicholas Loope, president of the Solar Energies Association, predicts that "the overall effectiveness of the program for the solar energy industry will be very limited."

As the HUD rules are now set up, most of the country's solar equipment producers won't be affected at all. Grants and loans will be primarily for passive solar systems, which require no pumps or other moving parts. That restriction alone excludes most types of solar hot-water systems.

Loope says 1982 was probably one of the worst years for the solar energy industry since its start in 1974.

High energy prices spurred demand for solar devices.

Untapped Treasure in American Classrooms

An estimated 9 million American children could be classified as gifted and talented. Yet only 20 percent of such children are ever identified, and only 35 percent of that group are taught in a way that challenges their abilities.

The National Business Consortium for the Gifted and Talented has set out to fill the gap. Based in Washington and organized in late 1980, the consortium is building a network of business leaders, legislators, educators and parents. Its goal: more educational programs tailored for gifted students.

"These children are our greatest resource," says Jacqueline Meers, consortium executive director, "yet our educational system largely ignores them." America is not developing its talent but importing it, she says, pointing out that 35 percent of the graduate students in the United States are foreigners.

The consortium, whose members are U.S. corporations and foundations, seeks to create a national center for education of the gifted. It would evaluate and exchange ideas, stimulate national and local awareness of issues related to gifted children, mobilize partnerships of business and education to tackle these issues, assess needs and resources for the gifted in each state and, through four "model states," provide working examples of improved programs for the gifted.

PHOTO: J. MYERS—H. ARMSTRONG ROBERTS

Are talented children getting the stimulation they need?

Is the U.S. Trapped On a Treadmill?

The United States faces some choices on economic policy that are so painful they are likely to be evaded.

That is the troubling consensus of the experts participating in a Washington conference on the economic outlook, conducted late last year by the National Economists Club.

Their diagnosis: The country appears to be trapped in a cycle in which the federal government fights inflation until unemployment becomes a problem, then stimulates the economy until inflation re-ignites.

Alice Rivlin, director of the Congressional Budget Office, predicts a slow recovery with lingering unemployment and federal deficits of $170 billion to $180 billion "for the foreseeable future." She thinks the threat of such huge deficits will produce a combination of tax increases and spending cuts.

Rivlin would have to be counted an optimist compared with Barry Bosworth, who expects a deficit as high as $240 billion in fiscal 1985.

Now at the Brookings Institution, Bosworth served as director of the Council on Wage and Price Stability in the Carter administration. He foresees a stalemate on economic policy, with fear of deficits preventing fiscal stimulus and fear of inflation preventing monetary stimulus. Under these circumstances, he says, Congress will focus on protectionism, public jobs and other "misguided" but politically feasible efforts.

The Growing Friction in U.S.-Canada Trade

Canada is pushing long-range policies to restrict American and other foreign investors, and some Reagan administration officials fear that this growing nationalistic movement in Ottawa will damage the $100 billion bilateral trade relationship between the two nations.

For its part, Canada is complaining about allegedly unfair U.S. trade laws and about what it charges is U.S. unwillingness to deal with acid rain.

Canada is pressing a tough policy to require at least 50 percent Canadian ownership of the country's vast gas and oil industry by 1990, possibly including full Canadian control of some large American-owned companies.

Besides that, rulings by the Canadian government's Foreign Investment Review Agency have drawn complaints. The agency was set up in 1970 to screen foreign investments, with the ambiguous criterion that they be of "significant benefit" to Canada.

Foreign investors have complained that the agency communicates its procedures poorly. American businessmen and others say they are left in the dark about what kinds of investments are likely to be approved by the agency and about what profit margins will be allowed when investments are permitted.

Canadian policy is so murky that U.S. officials have laid the issue before the General Agreement on Tariffs and Trade organization.

Import Policy Splits Democratic Ranks

With Sen. Edward M. Kennedy (D-Mass.) now out of the picture as a presidential candidate next year, look for an ever widening split in Democratic ranks between former President Jimmy Carter and his Vice President, Walter F. Mondale.

Carter still says that Mondale is his choice for the 1984 Democratic candidacy, but—and the but is expected to grow bigger during 1983—Carter has already split with Mondale over U.S. trade policy.

Shortly before last November's congressional elections, Mondale opened fire on Japanese car manufacturers, becoming a leading spokesman for the AFL-CIO push to get the protectionist domestic content bill passed by Congress.

A week after the elections, Carter blasted Mondale's "extremely vituperative attacks" on Japanese trade policies. He characterized Mondale's attacks as "counterproductive" and "confrontational" and said Mondale was out to wrap up organized labor's endorsement long before the Democratic convention.

PHOTO: REMI—UNIPHOTO

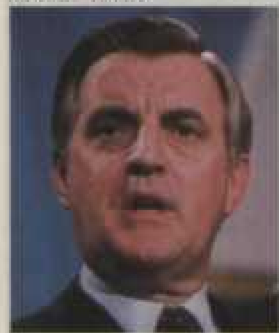


PHOTO: JAMES PERCY—UNIPHOTO

Once the closest of allies, former Vice President Walter Mondale (left) and former President Jimmy Carter disagree on trade legislation.

Mondale has since countered that "this country cannot continue to act as though free trade is a reality."

In December, the content bill passed the House but died in the Senate (where Kennedy supports the Mondale line). Some Senate insiders say Carter has begun to eye Sen. John Glenn (D-Ohio) as a moderate he can support. □

BUSINESS VIEW

An Improved Plan To Rescue Social Security

PHOTO: M. ROESSLER—H. ARMSTRONG ROBERTS

All generations are affected by the problems—and promises—of Social Security.

CONGRESS this month begins an 11th-hour effort to head off the insolvency that could overtake the Social Security retirement system by late spring or early summer.

The legislative rescue effort will get under way in the House Ways and Means Committee, which will take up recommendations of the National Commission on Social Security Reform (see chart, page 25). That panel was appointed last year by President Reagan, House Speaker Thomas P. O'Neill, Jr., (D-Mass.) and Senate Majority Leader Howard Baker (R-Tenn.). They hoped for a bipartisan compromise that could clear Congress with relatively little political backlash.

But the panel's proposal has touched off a new round of debate on whether the retirement system's financial problems should be resolved primarily through higher taxes or through restraint on benefit growth. A heated battle is expected on Capitol Hill.

Although business endorses—in fact, originated—many of the proposals put forth by the commission, some business groups believe the plan could be significantly improved if it did not rely so heavily on higher taxes at a time when the economy is struggling toward recovery.

The business community is watching developments intensely because of its enormous stake in the outcome. Employers pay half the Social Security taxes directly and provide the jobs that produce the wages on which workers are taxed to pay the other half.

A major role for business in the debate involves an appeal to Congress to realize the extent to which various proposals for saving Social Security would affect the ability of the overall economy to generate sufficient employment to assure the necessary level of payroll taxes.

The U.S. Chamber of Commerce, for example, finds several elements it supports in the commission plan, but its own program includes elements the business federation says could significantly improve the commission blueprint. Here are highlights of the Chamber plan to rescue Social Security:

- Slow growth of benefits through modification of the present cost-of-living adjustment formula, under which benefits have gone up much faster than wages in the past decade.
- Phase in slowly an increase in the age for eligibility for full benefits. An increase to age 68 would be implemented in quarterly steps beginning late this century and completed early in the next century.
- Reduce the benefit level for individuals electing to take early retirement at age 62.
- Mandate universal coverage, which would require all workers, including federal employes not now covered, to participate in Social Security.
- Oppose use of general revenues to make up Social Security deficits.
- Hold the line on payroll taxes, allowing business to invest money that otherwise would go into the Social Security fund.

In view of those proposals, business is concerned that the commission's recommendations call for higher taxes, do not deal effectively with the benefit-adjustment formula, fall short of what is needed by way of universal coverage and do not deal adequately with long-term needs of the system.

The bipartisan commission's report contains three major tax-increase proposals: accelerate the effective dates of tax-rate increases already scheduled, raise the tax on the self-employed, and make half of retirement benefits subject to income tax when income from other sources is at least $20,000.

The U.S. Chamber's Forecast Center analyzed the potential impact on the economy of various proposals for accelerating scheduled payroll tax increases and legislating new ones. In all cases, the analysis found, "the increased tax rate reduces aggregate economic activity through its impact on personal income. . . . The increase in the tax rate represents an increase in costs to employers. This higher cost is an impediment to business spending on both labor and capital inputs."

Up to 2.2 million jobs could be lost from 1984 to 1990, the Forecast Center said, because higher Social Security taxes absorbed money that could have helped finance business expansion.

Under present law, the Social Security tax rate is scheduled to go from the current 6.7 percent to 7.05 percent in 1985, 7.15 percent in 1986 and 7.65 percent in 1990. That rate is applied to a maximum salary (currently $35,700), and the worker and the employer each pay the amount of tax due.

Congress' deliberations will deal with two separate phases of the Social Security problem—the immediate, or short-

PHOTO: ART STEIN

Chairman Greenspan presides over the National Commission on Social Security Reform, flanked by staff chief Myers and Sen. Armstrong, a commission member who also heads the Senate Social Security subcommittee.

Recommendations of the National Commission On Social Security Reform

Option	Potential Gains 1983-89 (In billions of dollars)
1. a) Cover all nonprofit employes and new federal employes,	20
b) ban withdrawal of state and local employes	3
2. Include half of retirement benefits in income tax base for those with $20,000 or more in income from other sources ($25,000 for joint return)	30
3. Delay 1983 cost-of-living adjustment six months	40
4. Move the 1985 tax rate of 5.7 percent to 1984; increase the rate to 6.06 percent for 1988-89; leave the rate for 1990 and after at 6.2 percent. These rates apply to the trust funds for Old Age and Survivors benefits and for Disability Insurance (OASDI)	40
5. Alter benefit computation and payment practices affecting divorced spouses, survivors and disabled widows and widowers; reduce windfall benefits for those with pensions from noncovered employment	−0.3
6. Make self-employment tax rate same as combined employer-employe rate, with one half deductible as business expense, effective Jan. 1, 1984	18
7. Make "catch-up" federal payment to Social Security trust funds for past military service	18
8. Increase to 8 percent, from the present 3 percent, the credit for each year that retirement is delayed past 65. The increase would be phased in between 1990 and 2010	*
9. Automatic stabilizer. Use lesser of wages or prices to calculate annual increases when trust-fund reserves drop below 20 percent of annual outgo; provide catch-up increases in benefits when reserves reach 32 percent. Effective Jan. 1, 1988	#
10. Adopt additional long-term cost reduction measures calculated to eliminate 0.58 percentage points of long-term OASDI deficit estimated at 1.8 percent of taxable payroll. Specific steps are still to be formulated	*
TOTAL	169

* Affects long-term (75 years) deficit only.
\# Effect cannot be estimated.

term, deficit and the need for long-term reforms to assure survival of the system well into the next century.

The short-term problem is endangering the system now and will remain a threat through 1989. The long-term difficulties will not show up until well after the turn of the century. In between there could be a respite of 15 to 30 years, depending on how rapidly expenses rise for the Hospital Insurance component of the system. By some projections, HI costs will keep the system in deficit for the entire period.

Short-term problem. The national commission estimates that in the next seven years expenses of the Old Age, Survivors and Disability Insurance funds will exceed income by $150 billion to $200 billion.

This OASDI shortfall is due largely to the recent poor performance of the economy. A one-percentage-point increase in inflation raises the system's costs by $1.5 billion a year; a one-point increase in the unemployment rate cuts revenues by $2 billion. Such conditions have caused a widening gap between the system's income and outgo.

The persistence of such economic difficulties was not foreseen in 1977—the last time major changes were made in the Social Security Act. Ironically, the changes at that time were intended to rescue the system from problems created by the 1972 amendments.

In 1972 Congress granted a 20 percent increase in benefits, tied future benefit increases to increases in the consumer price index and changed the method of calculating the initial retirement benefit. Under inflationary conditions, that last change caused a rapid rise in the proportion of preretirement income replaced by Social Security.

The 1977 amendments curbed the runaway replacement rates, but also added the largest scheduled tax in-

PHOTO: ART STEIN

Reform commission member Sen. Daniel Patrick Moynihan has tended to minimize the Social Security funding problems.

crease in the system's history—$277 billion over 10 years. These changes were expected to keep the system financially sound until 2020. However, nothing was done about the indexation of benefit checks to the consumer price index. During a period of stagflation, such indexation causes benefits to rise more rapidly than the wages of the working population. The largest CPI-triggered benefit increase, 14.3 percent, occurred in 1980, when the average increase for wages was 9.1 percent.

A continued disparity like that guarantees trouble.

Long-term problem. The long-term problem is primarily the result of changing demographics. When the system began, 16 workers were supporting each beneficiary. The ratio is now 3.2:1. When the "baby boom" generation retires, that ratio may be only 2:1. In 2035, a total employer/employe payroll tax of 28.18 percent could be required to support the OASDI and Hospital Insurance trust funds if benefit growth is not reduced. Put another way, the system will have an average annual deficit of $100 billion a year (1983 dollars) for each of the next 75 years.

These figures come from the intermediate assumptions in the 1982 report of the OASDI trustees. Estimates by experts outside the system have put the peak tax rate needed at nearly 50 percent, given pessimistic assumptions about economic and demographic conditions.

The magnitude of this long-range problem makes it essential to adopt modest changes now to head off the future deficits. Otherwise, drastic changes will have to be made after the turn of the century.

Both the long- and short-term problems must be tackled now. Here are specifics on the major proposals being put forth by business and other groups:

Slow the rate of benefit growth. This proposal tends to panic those now retired or nearing retirement. Many fear an actual cut in the size of their present checks, although no one is proposing that. And nearly everyone suffers from the delusion that their benefits are financed by what they paid in. However, a worker who paid the maximum for his entire career and retired at 65 in 1980 will have recovered the value of his contributions plus interest by the middle of this year. For others—such as low-wage earners and married couples with a nonworking spouse—the recovery period is much shorter.

The case for reducing benefit growth is compelling: From 1970 to 1981, average wages increased 122 percent while Social Security benefits rose 205 percent. Median income for all those over 65 is $5,771. Median income for retired couples receiving Social Security is $14,300. Seventy percent of new retirees either own their homes outright or pay less than $200 monthly for rent or a mortgage. Recipients who are truly impoverished can be aided by means-tested welfare programs.

There are numerous ways to slow benefit growth. One often mentioned—and favored by the Chamber—is a one-year freeze on cost-of-living increases in benefits. That would save $94 billion in the short run and make some contribution to resolving the long-term problem as well.

Another logical approach is to ensure that benefits cannot increase faster than wages. Using the lower of wages or prices is both equitable and fail-safe, since the tax on wages pays the benefits. Compared to a freeze, this route is likely to produce modest short-term savings and larger long-term savings.

Lowering the replacement rate—the amount of preretirement earnings replaced by Social Security—would not affect present retirees or save much in the near future, but it would go a long way toward wiping out the long-term deficit. A 10 percent reduction in replacement rates, for example, would eliminate more than 60 percent of the problem.

Extend the coverage. About 14 million workers are not now covered by Social Security. Nine million of these are public employes and employes of nonprofit organizations, who are not required to participate. But 80 percent of those who are technically exempt manage to get Social Security payments anyway, either as dependents of a covered worker or by working for short periods in covered employment. Because the benefit formula is heavily skewed toward low-income individuals, those who qualify in this fashion typically get benefits equal to two thirds of what they would have earned if their entire careers had been in covered employment, at one third the cost.

Consequently, extended coverage—strongly advocated by the U.S. Chamber—is probably the least controversial of all proposed solutions. It was the first step toward a solution that all members of the reform commission could accept.

The only remaining question about extended coverage is whether state and local government employes should be included along with federal and nonprofit workers. The Chamber favors universal coverage; others, including some conservative members of Congress, see constitutional problems in trying to cover state and local government employes. But if only new federal and all nonprofit employes were covered, that would contribute $20 billion toward a short-term solution and would reduce the long-term deficit by 17 percent.

Raise taxes. The most widely discussed tax increase proposal is to accelerate all or part of the presently scheduled tax increases (1985, 1986 and 1990)

Percentage Of Earnings Replaced By Social Security
(For single worker retiring at 65)

	Earnings Level		
	Low	Average	Maximum
1939	57.2%	40.0%	22.9%
1950	44.7	30.0	26.8
1952	45.2	30.3	28.3
1954	47.5	34.0	31.0
1956	46.7	34.2	31.8
1965	44.2	33.5	30.5
1967	46.9	36.3	33.5
1969	51.7	40.3	38.6
1971	53.5	43.0	39.4
1972	62.7	51.2	42.7
1975	70.2	55.9	42.6
1977*	52.5	41.2	27.6

*Present law
Source: National Commission on Social Security Reform

Because of a mistake in the 1972 amendments to the Social Security Act, the size of retirement benefits began to rise rapidly compared with preretirement earnings. That mistake was largely corrected by 1977 amendments, but the size of the replacement ratio may still be higher than the system can afford.

to 1984. That would have a major impact on the short-term deficit ($133 billion at the 1990 tax rate) but very little impact on the long-term outlook, since the 1990 increase will arrive eventually anyway.

Another tax increase proposal would make half of a recipient's retirement benefits taxable. This change might be combined with an exemption for those with adjusted gross income of less than $20,000 or so. With or without the exemption, such a change would not affect retirees with very low incomes.

Increase the retirement age. This proposal—endorsed by the Chamber—is based on the simple actuarial fact that people are living longer. In 1940, the life expectancy at age 65 was 12 years for a male and 13.7 for a female. The comparable figures now are 14.4 and 19, respectively. The projection for 2020 is 16.4 and 22. A gradual increase in the retirement age between the years 2000 and 2017 would eliminate 68 percent of the long-term deficit.

Use general revenues to help fund Social Security. An obvious problem with this suggestion is that there are no surplus general revenues. Future federal budget deficits are now being estimated in the hundreds of billions of dollars. Further, conservatives fear that breaking the link between benefits and payroll taxes would encourage politicians to give away the store (or what's left of it) by increasing outgo without regard for income.

As the long-delayed debate over the future of Social Security begins, conservatives, championed by Sen. William L. Armstrong (R-Colo.), are adamantly opposed to tax increases beyond those already scheduled. As chairman of the Social Security subcommittee of the Senate Finance Committee, he is a major player in the game. Liberals, exemplified by Rep. Claude Pepper (D-Fla.), are equally opposed to reductions in benefit growth beyond those recommended by the National Commission.

President Reagan, Speaker O'Neill and the key House and Senate committee chairmen have all signed on behind the commission's report. Such unanimity may grease the way for the legislation. Like last summer's tax bill, it could slide swiftly through both chambers, protected by pleas to maintain the integrity of the package.

However, by failing to resolve completely the system's long-term funding problem, the commission has left a loose string dangling. Tax-weary conservatives and beneficiaries unwilling to give up anything may begin to tug on it.

Business people face a tough decision: Support the package as the best deal available, or try for something better, at the risk of doing worse. □

What's in Store In Congress For Retailers?

By Annette Kornblum

Verrick French of the National Retail Merchants Association says changes in tax laws could damage store owners.

CHRISTMAS WAS NOT AS MERRY for retailers in 1982 as they had hoped. Retail sales rose 6.6 percent in December, 1982, as compared with December, 1981; department store sales were up only 5.3 percent. The increase in sales was barely large enough to keep up with inflation.

But if they didn't find much under the Christmas tree, retailers got a New Year's package of sorts when Congress reconvened on January 3. As the 98th Congress gets down to work, the retail industry is confronted with a broad range of legislative proposals, some of which it initiated and some of which it views as threats to its future well-being.

The size of the retail industry—it employs over 15 million people—gives it a strong presence in Washington. So large an industry cannot escape being affected by many of the bills Congress considers. And in the legislative battles, Sears, Roebuck & Company and the corner candy store both have much at stake.

Retailers are vitally interested this year in measures dealing with tax policy, regulation, bankruptcy reform, labor standards, postal costs, environmental rules and pricing policies—among other things.

Tax Policy. Retailers fear that the search for additional revenue may encourage Congress to scale back the accelerated depreciation provisions of the 1981 tax law by requiring that depreciation be figured over a longer period of time. This would result in lower annual tax deductions.

"We're vulnerable," says Verrick French, senior vice president for government affairs of the National Retail Merchants Association. "By changing the formula from 15 to 20 years the government could gain substantial revenue."

A recent options paper by the congressional Joint Committee on Taxation estimated that such a change would yield an additional $200 million in fiscal 1983, and $4 billion more by fiscal 1986.

PHOTOS: DENNIS BRACK—BLACK STAR

Frank Rich, head of a chain of four shoe stores in the Washington area, has his doubts about letting manufacturers set retail prices.

Those figures assume that investment will increase as economic recovery gets under way. If, for example, a retail chain were to build three new stores this year, four in 1984 and eight in 1985, its tax deductions under the accelerated depreciation provisions would rise sharply. But if the chain were forced to depreciate its property over more years, the deductions would be lower and the tax payments to the Treasury correspondingly higher.

An attack on accelerated depreciation for buildings may be more likely in 1983 because last year Congress repealed provisions that would have permitted faster depreciation of equipment. "Many people believe tax structures will be on the hit list in 1983 because they went for equipment in 1982," says Kenneth Simonson, senior tax economist of the U.S. Chamber of Commerce.

Labor. Retailers have lined up against a proposed amendment to the Fair Labor Standards Act that would require employers who violate the act's minimum wage and overtime requirements to pay affected employes three times the amount of wages owed. The retailers argue that legislative action should be delayed until the extent of violations becomes clearer.

Rep. George Miller (D-Calif.), chairman of the House Subcommittee on Labor Standards, first proposed the amendment in 1981. He plans to introduce a modified version this year. He argues that the current law does not deter employer violations, particularly in light of cutbacks in enforcement by the Reagan administration.

"If you beat all the odds and get caught, all you have to do is pay what you owe. That's like saying if you steal jewels, all you have to do is return them," says a subcommittee staff member.

Congress also may consider a two-tiered minimum wage, with a lower

New rules on "hazardous wastes" like these cans and bottles could tie retailers in red tape, warns Eugene Rowan of J.C. Penney Company.

minimum authorized for teen-aged employes (see article on page 36). Retailers are ambivalent about such a differential. Some think that it might ease unemployment; others think that it could lead to the displacement of older workers by younger workers.

Hazardous wastes. The House voted last year to make many small businesses subject to hazardous waste regulations from which they have been exempt. Now a business is exempt if it generates less than 1,000 kilograms of waste per month. Under the House-passed bill, the limit would be 100 kilograms (about 220 pounds). The bill is expected to resurface this year.

Among the consumer products embraced by the definition of hazardous wastes would be aerosol cans, perfume bottles, detergents, insecticides, medicines, mouthwashes, cosmetics and lighter fluid. Critics of the proposed change estimate that it would triple the number of businesses—especially small ones—that would be subject to regulation.

"What's the sense of it," asks Eugene F. Rowan, manager of federal government relations for J.C. Penney Company, "when such minute quantities in our stores get regulated and the vast quantity that consumers generate goes unregulated?"

Many retailers consider this issue especially urgent. "This thing is potentially the most devastating regulatory burden placed on small business in the past decade," says William Daines, executive vice president of the American Retail Federation. James D. McKevitt, director of federal legislation for the National Federation of Independent Business, predicts: "It's going to be the next OSHA [Occupational Safety and Health Administration]—a big sleeping giant."

Advocates of the tighter rules deny that the change would impose a financial or record-keeping burden on the estimated 1 million retailers it would affect, because only a one-page report would be required, twice a year. At least 18 states have already enacted laws imposing stiffer regulations on small generators of waste.

"We've been unable to find situations where the regulations have created controversy for small generators in Rhode Island," says a congressional staff member who supports the measure.

Federal Trade Commission. Last year the House passed legislation that would have restricted the FTC's powers. Among other things, the bill would have defined, for the first time, the "unfair practices" the FTC is authorized to act against. It also would have barred the FTC from making industry-wide rules against unfair practices unless those practices were "prevalent." Business groups will make a renewed effort this year to pass such a bill.

However, many retailers strongly oppose legislation that would bar the FTC from regulating the professions.

"Prohibiting the FTC from policing the professions would create roadblocks to offering optical and legal services and dental clinics at the state and local level," says Ty Kelley, vice president of government affairs for the National Association of Chain Drug Stores.

The House approved such a ban late last year, but the Senate rejected it. The issue is expected to come up again this year.

Pricing policies. Retailers are divided on the issue of resale price maintenance, under which manufacturers specify the prices that stores can charge for their products. This practice used to be permitted under state fair trade laws, but such laws were banned by Congress in 1975.

Now some officials—notably Assistant Attorney General William F. Baxter—support a change in federal policy. Baxter asserts the manufacturers should be permitted to control the retail prices of their products in some instances. Such vertical price controls should not be illegal, he says, as long as there is horizontal price competition—that is, competition among different manufacturers' products at the retail level.

The Justice Department has begun intervening on behalf of some manufacturers in cases in which they are accused of controlling retail prices. Baxter has said that he will restrict enforcement of the ban on resale price maintenance to cases in which competition is affected. He is also considering asking Congress to amend the current law.

But Baxter's views have infuriated some members of Congress—one called

for his resignation—and divided the retail community. Discount retailers and some business groups fear that brand name merchandise will no longer be as readily available to them if manufacturer control of retail prices is permitted.

"It would not be an exaggeration to say that a change in current law could affect the competitive ability of retailers doing hundreds of billions of dollars in sales," says Ed Borda, president of the Association of General Merchandising Chains. The group has targeted resale price maintenance as its chief political concern.

On the other side are some small retailers, like members of the Menswear Retail Association, and some larger retailers as well. Although less vocal than the discounters, they would not mind a return to some form of fair trade.

But some small retailers have their doubts. Says Frank Rich, president of Rich's Shoes, a four-store Washington chain: "I don't want to be told what to buy and sell by manufacturers who don't know what consumers want."

Office equipment dealers. There is more unanimity among retailers on legislation that would extend market monopolies to a tightly defined class of office equipment dealers. Proponents of the Office Machine and Equipment Dealers' Agreement Act say that the legislation would remedy multiple abuses caused by dealership agreements. Office equipment dealers now can have their contracts canceled without notice by suppliers, the bill's supporters say, and an unfriendly supplier can set up a competitor next door to one of his own dealers. The bill would restrict such practices.

Opponents include a number of retailers, consumer groups and manufacturers. They argue that the bill would limit competition, ultimately raising prices.

Copyrights. Retailers would support a legislative solution to the controversy over whether stores can use radio broadcasts as background music without paying license fees to the music copyright holders. The Supreme Court last year left intact a lower court's ruling that such use of radio music without paying a fee violated the copyright law.

Bankruptcy. The dramatic upswing in consumer bankruptcies since enactment of the Bankruptcy Reform Act of 1978 has united retailers, bankers and other lenders who want to make it more difficult for consumers to avoid debts by filing for personal bankruptcy.

Retailers paint a grim picture of the losses they have suffered recently. J.C. Penney's losses from personal bankruptcies more than doubled between 1979 and 1981, rising from $10 million to $22 million. The story is the same for many department stores, banks and small businesses.

One proposal that has won wide support would require many debtors to pay some or all of their debts out of their future earnings. The bill also would curb "loading up" by debtors who go on spending binges before filing for bankruptcy.

Retailers argue that unless such legislation is enacted, all consumers will pay, because the cost of credit will rise and its availability will be reduced.

Consumer groups are not particularly concerned about the "loading up" provision, but they argue that bankruptcy has traditionally not touched future income and that the increase in bankruptcies is due largely to economic conditions. They say the measure would overturn the key assumption of American bankruptcy law—that a person who goes bankrupt should be able to start over without any liabilities.

Postal rates. Retailers are among the largest users of postal services. They will be watching closely a number of postal bills that would, among other things, simplify the rate-making process. One bill would eliminate the board of governors of the Postal Service and give the Postal Rate Commission authority to set new rates, fees and classifications and to decide when they should be implemented.

Daines of the American Retail Federation says that postal reform will be one of his organization's main issues. "We're going to move and not just react," he says. "A lot of money is involved in this and we're going to run."

Foreign trade. Retailers are strongly opposed to protectionist legislation like the domestic content bill to restrict auto imports; they fear that passage of such a bill would establish a precedent for other industries—textiles, shoes and leather—and reduce the flow of the goods they need to fill their shelves.

"The U.S. has already started on a protectionist policy," says Daines, "and the cost to consumers is enormous."

All of this legislative activity will take place in an atmosphere of growing optimism about the prospects for retail sales in 1983.

James Cohen, an analyst with Prudential Bache Securities, points to the promise of lower interest rates and lower inflation. "The economic environment has changed rather dramatically over what we've seen for the past five years," he says, "and it bodes well for retailers in terms of their profits." □

Annette Kornblum is a Washington free-lance writer who specializes in business subjects.

WHITE HOUSE PLAN TO SAVE BILLIONS

Cleaning Up the Federal Management Mess

By Seth Kantor

PHOTO: RHODA BAER

Deputy U.S. Budget Director Joseph Wright, with proven private and federal management skills, is the force behind Reform '88.

IT IS A CURIOUS happenstance that the man behind President Reagan's principal effort to bring management of the federal government into the 20th century operates out of an ornate private office first used during the Chester A. Arthur administration.

Despite his antique surroundings, Joseph R. Wright, Jr., 44, is a thoroughly modern business administrator. As Reagan's deputy budget director, Wright is chief draftsman of Reform '88, an ambitious six-year plan to streamline government management techniques so that billions of dollars in waste will be eliminated.

Reform '88 is a package of 12 different approaches to eliminating waste. They range from collecting bad debts to getting rid of tangled regulations that hamper government cash flow.

Wright has told the White House privately that he expects Reform '88 to produce savings to the public of at least $13.6 billion by October 1, at the end of the program's first full year. He projects total savings of $46.6 billion by the end of fiscal 1985, halfway through the program's life.

The government's 17 million contracts a year ooze through offices bogged down in 84,000 pages of U.S. regulations.

Wright's Victorian suite is in the Old Executive Office Building, which once housed the State Department and the old War and Navy departments in their entirety. Now the State Department and the Defense Department fill dozens of buildings in and around Washington.

Increased size has not brought increased efficiency. The Navy spent $150 million between 1970 and 1982 in an effort to improve its inadequate payroll system, and it was unable to achieve anything better than a 50 percent error rate.

Some of the errors—which include wrong serial numbers, wrong addresses and so on—arise because of the movement of sailors on the Navy's many ships, the Navy says. But an error rate of 50 percent is extraordinary, considering that the nation's largest private firms do not tolerate mistakes amounting to one fiftieth of 1 percent in their handling of payrolls.

The flow of money into and out of the federal government is slowed and diverted in many ways—by 350 different (and incompatible) major payroll systems, by obsolete and overworked computers and by methods that would threaten with failure any private firm foolish enough to adopt them.

"We are running about $1.75 trillion a year through the government in cash flow," says Wright. "Federal agencies just don't have a concept of how the flow of money is supposed to work, and as a result the government is losing millions in interest. Incoming payment checks are routinely held three or four weeks without being deposited. Outside contractors are prepaid in many instances, and the contractors put the money into the bank, drawing interest on it—instead of the government drawing interest on its own money."

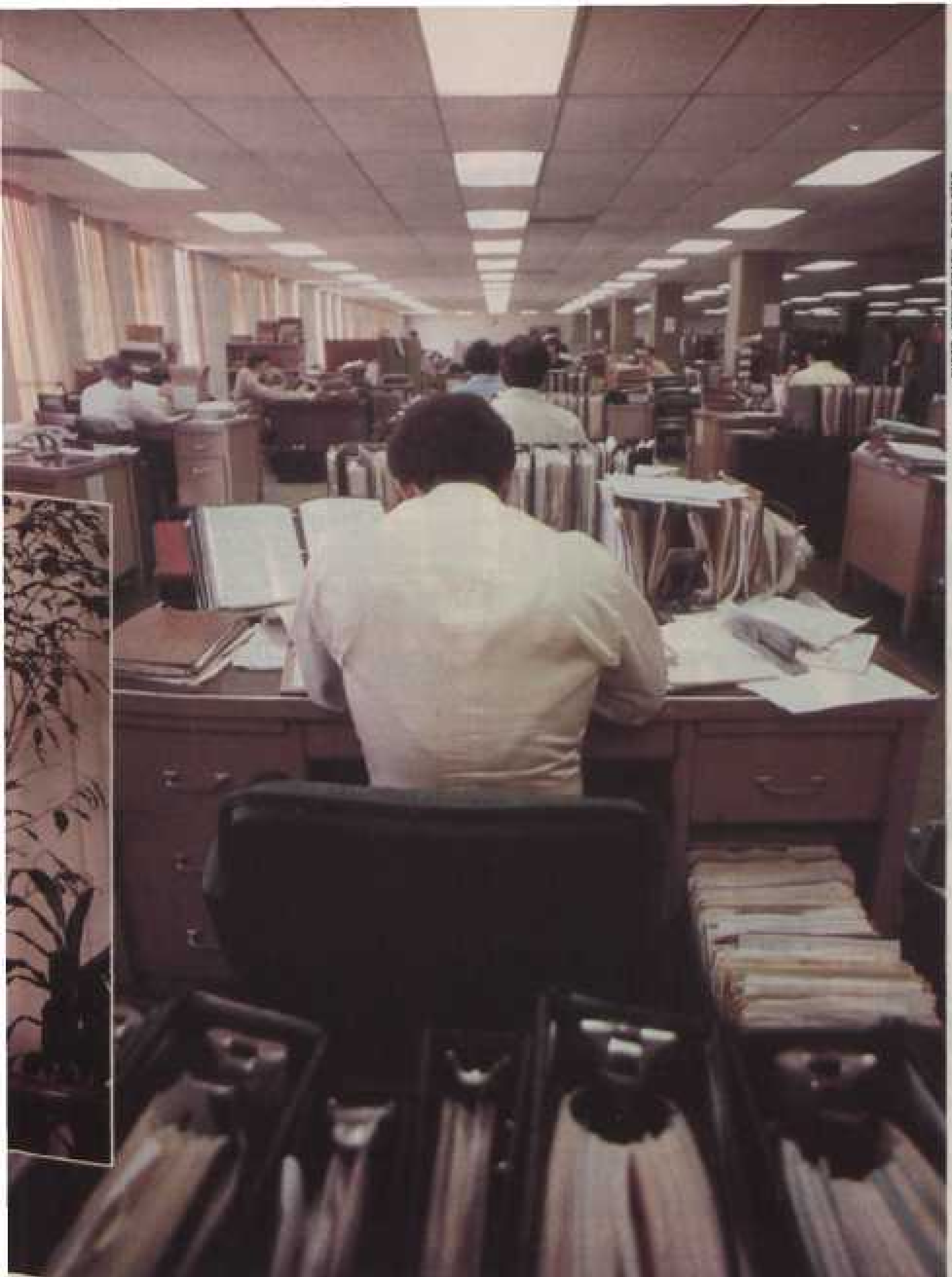
He says a gain of $800 million in interest could be realized if procedures were tightened so that checks were cashed in a timely way, loans were collected more efficiently and payment of the larger federal grants was not made in advance. Such changes would increase the amount of money the government has under its control—and thus can collect interest on—at any given time.

Now, Wright says, "money floats aimlessly in and out of the back rooms of the government."

EVEN THE SIMPLEST transactions can turn the government's cash flow into a backward trickle.

For instance, the author of a forthcoming book recently wrote a $24.90 check to the FBI as payment at 10 cents a page for copies of 249 pages of research material from FBI files. The check routinely passed through several administrative channels. By the time it reached the U.S. Treasury weeks later, according to the FBI, the cost to the federal government of processing the check had reached $25.

There is nothing unusual about such costs. Of 2.5 million civilian federal em-



ployes, at least 705,000 are assigned to handle administrative paper work like the processing of checks.

Not only does it cost a lot to handle the money the government receives, it is taking longer for that money to arrive, Office of Management and Budget figures show. "In the past year the government's delinquencies have risen three times as fast as have commercial bank delinquencies," says Wright. "In tough economic times the government becomes the last creditor to be paid."

Wright is in an unusually good position to observe the government's cash-flow problems since he has been both a successful corporate manager and a frustrated federal administrator.

During the 1960s he was a vice president and division head at Booz-Allen & Hamilton, Inc., the management consulting giant. Before joining the Reagan administration, he was president of the retail marketing and credit card subsidiaries of Citicorp, Inc., largest bank holding company in the world.

In between those two business posts, Wright served in the Nixon administration as assistant secretary of Agriculture for administration. He supervised a $14 billion budget, 120,000 people and 14,000 offices.

Wright found that the Agriculture Department's computers were being operated inefficiently. He tried to convince Congress in 1972 that poor management of government computers was costing the public a bundle.

In 1982, when Reform '88 was a gleam in the Reagan administration's eye, Wright appeared at hearings before the Senate Government Affairs Committee and the House Government Operations Committee. He grins as he recalls what happened. "They said to me, 'Okay, big mouth. You've been talking about this for 10 years now. When are you going to put the M into OMB?' "

(It is true that people do refer to David Stockman, Wright's boss at the Office of Management and Budget, as the budget director and never as the management director. It was the same with his predecessors at OMB.)

Reform '88 was unveiled a few months later.

Ronald Reagan is enthusiastic about the six-year project. "That's what we came to Washington for," the President reportedly said when the blueprint for Reform '88 was laid before him.

White House Counselor Edwin Meese III says Reform '88 has become an essential part of the legacy Reagan wants to leave behind for the American people: "A government that acts in a businesslike manner."

At the top levels of Reform '88, Meese will preside over a new cabinet council on management and administration. The council will oversee a task force on management reform, composed of 33 senior administrators from 13 federal agencies.

Those senior managers are being detailed to OMB, which in December set up a special Reform '88 staff under the direction of Charles F. "Chuck" Bingman, a 27-year veteran of management in the Transportation Department and other federal agencies.

Where does that leave Joe Wright?

"I'm just the Egyptian drum-beater who keeps it [the project] going at half-speed," is the way Wright describes his role. Officially, he has been named chairman of a steering committee assigned to "translate policy-level cabinet council directives into working-level guidance to the project office."

One interpreter at OMB says that simply means Wright "will call the plays."

Since Reform '88 has been planned as a long-term project, what happens if in 1984 the Reagan White House comes to an end and the Democrats move in?

Wright is convinced that "another political regime would have a difficult time trying to stop this kind of momentum. Most of the experts we've got working on this problem of mismanagement are career government officials. They don't change with the administrations."

Reform often doesn't come cheap. Wright says that based on his experience, "if you were a $50 million firm and you brought in an efficiency expert to reduce waste, it would cost you $100,000 to get the job done."

Using that same measuring stick, Reform '88 will cost the public nearly $10 million during its first three years if it is to achieve the projected savings of $46.6 billion.

But Wright says the task is so large


PHOTO: UNITED PRESS INTERNATIONAL

As Reform '88 begins, Wright orders 2,000 unneeded federal publications junked—including the Agriculture Department's "How To Clean the Bathroom."

and the goals are so broad that it is not yet possible to put a price tag on the project. "We're having trouble just establishing priorities," he says.

In October, when Reform '88 was 10 days old, one of its earliest goals was achieved when the White House modernized a communications system that had been in place since Abigail Adams used to hang her wash to dry in the East Room.

Back in those days, when President John Adams wished to schedule a meeting with his cabinet, a clerk would scratch out the message on a scroll, and the message would be delivered to the department heads by an attendant in a horse-drawn carriage.

THE WORLD TURNED. The telephone was invented. But by the time Ronald Reagan became President, the procedure had undergone almost no change. Messages were typed by a White House clerk. Phone calls were placed to the departments, and trusted aides from the departments drove through heavy Washington traffic to the side entrance of the White House to pick up the messages and deliver them personally to cabinet members.

Reform '88 changed all that. Now a simple computer system links the White House and cabinet members' offices so that written messages can be sent electronically.

Simple electronic systems and large, sophisticated computers are the keys to what Reform '88 planners hope to achieve in this decade.

"The federal inventory of medium- and large-scale computers is outmoded," says a two-year-old report by the General Accounting Office, an arm of Congress. One third of the government's major computers were at least 15 years old, and only 2 percent were as recent as 1975 in their technology, GAO said in 1981.

"Unless action is taken to modernize the government's computers, avoidable costs and unnecessary problems will continue," said the report.

WRIGHT SAYS not much has changed since then: "Our ancient computers are just two years more ancient."

The GAO report shows that many of the government's expensive computers, left behind by the rapid advance of the computer industry, cost the public more money than they save.

For instance, GAO investigators looked at computers at four government installations and found that "more than $700,000 could be saved annually in maintenance, power and cooling costs alone.

"Additional savings of more than $600,000 appear readily achievable by switching to modern equipment."

Newer computers take up less space, require less manpower, use less energy and need less special air conditioning and humidity control than the older models.

Says Wright: "People think that the federal employe is at fault when it is largely the equipment that should be retired."

ACCORDING TO the GAO report, new equipment can pay for itself in a surprisingly short time—18 months.

Today 150,000 federal employes are operating 16,000 overworked computers at an annual cost of $6 billion. Yet there are no centralized government records to show how many of these computers are being used for administrative purposes or where they are.

"We don't really know the total cost of administration," says Wright, "and that simply means we don't know the cost of doing business." He estimates that the federal government has fallen at least 10 years behind the private sector in management techniques.

Paper work bogs down the government's purchase of $110 billion worth of goods and services annually. There are 32,000 specialists who write 17 million contracts a year for everything from pencils to real estate to nuclear missiles.

"Procurement plays a major part in the federal budget," Wright says. "Yet every agency has to contend with about 20,000 pages of primary regulations and 64,000 more pages in secondary regulations. We've made it about as difficult to procure something as is possible."

Debt collection has fallen so far behind that U.S. agencies were stuck with $38 billion in bad debts at the start of 1983.

Despite this backlog, there is not a single automated debt collection center in the federal bureaucracy (the first is to be put into operation in March by the Internal Revenue Service).

OMB has come up with three governments and one corporation that it thinks can serve as examples of how public business should be conducted.

The governments are those of Japan, the state of Oregon and the city of Dallas; the corporation is International Telephone & Telegraph. OMB has given each of the four high marks for such things as clear planning, sharply defined responsibilities and effective audits.

If OMB were to choose an example from the other end of the spectrum—a poorly run organization to serve as a model for how public business should not be conducted—it would not have to look far. But Reform '88 may change that. □

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Just how laggard is the federal government in its bookkeeping?

In February, 1982, President Reagan commissioned a special survey of the government's outdated cost-accounting methods. Some 1,500 business executives, divided into 35 task forces, made the survey. New York industrialist J. Peter Grace headed the project, and his report will be made public this winter.

"You can't believe how far behind the government has gotten in some of its financial records," says Joseph R. Wright, Jr., deputy director of the Office of Management and Budget.

Wright says the Grace report will show that the most up-to-date federal records peg the value of the White House at $25,000.

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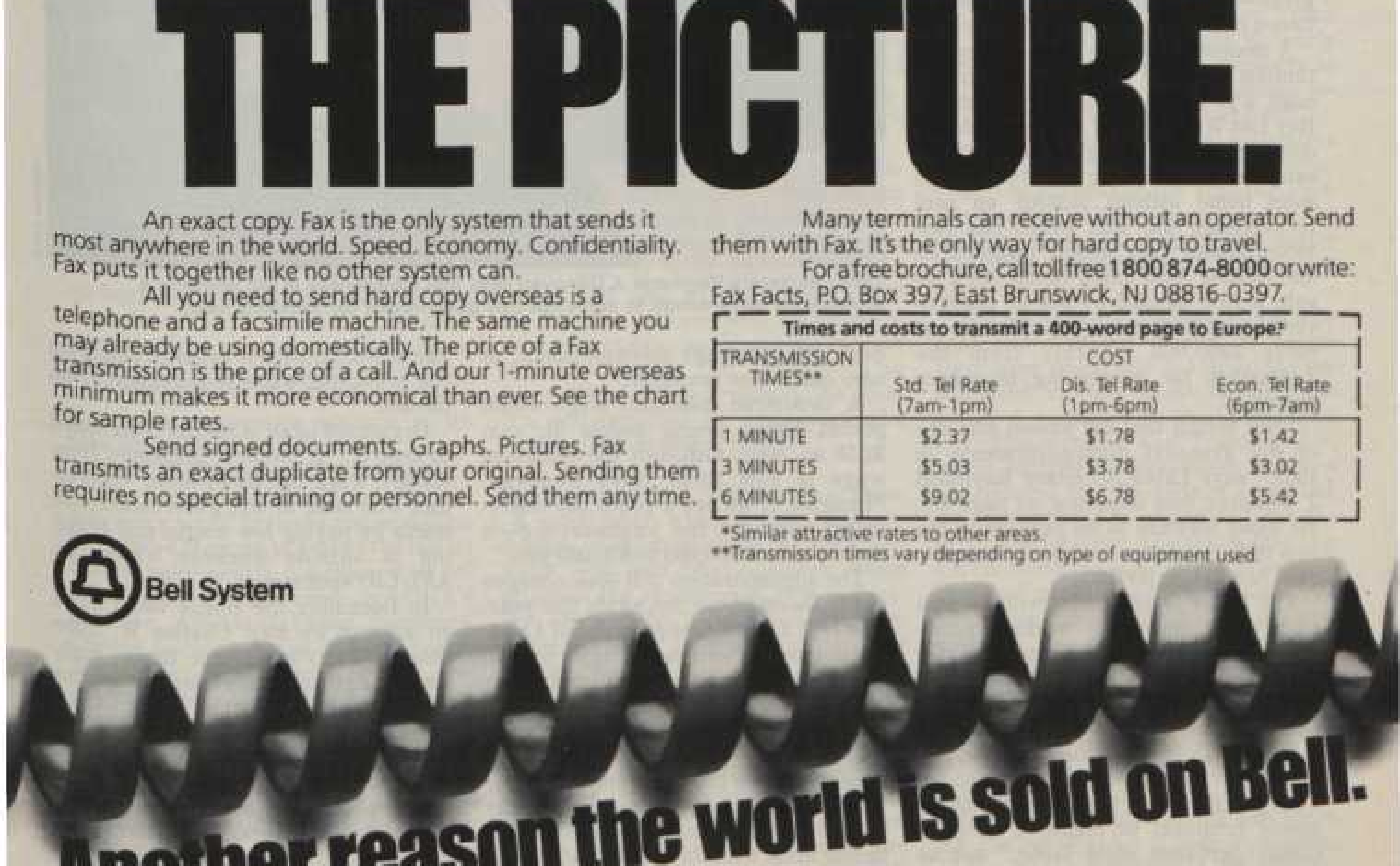

Another reason the world is sold on Bell.

New Congress, New Life For Labor Issues

Unemployment will be a focal point this year.

By Del Marth

Labor Secretary Raymond J. Donovan says that joblessness is not primarily a problem for government to solve but that government can certainly help.

FOR LABOR LEGISLATION, the year 1982 ended out of sync. No one—not organized labor, not the Labor Secretary, not the administration, not Congress—could find many matches between bills proposed and bills enacted.

A dramatic example of missed opportunities occurred in December. In Chicago, a jury found Teamsters President Roy Lee Williams and four other defendants guilty of trying to bribe a U.S. senator. In Washington, the House went home without passing an antiracketeering bill that would bar convicted felons from holding union office and dealing with union funds. As a result, a firm headed by one of the convicted conspirators may continue to receive $900,000 monthly from the Teamsters for processing insurance claims.

"Not seeing that bill passed was one of my greatest disappointments in 1982," says Labor Secretary Raymond J. Donovan (see interview on page 38). He looks forward to its passage in the new 98th Congress, as does its sponsor, Sen. Sam Nunn (D-Ga.).

The Labor Department, with responsibility for improving working conditions and advancing opportunities for wage earners, has a direct interest in many issues expected to come before Congress this year.

Likely to surface again, for example, is a bill for a two-tiered minimum wage. To organized labor, the bill is an "outrageous proposal to create a pool of cheap, part-time child labor," but to Donovan and the administration, the bill is "not a total solution, but a tool [to deal with] teen-age unemployment, at zero cost to the taxpayer."

A two-tiered minimum wage would permit hiring young people at, say, $2.50 an hour, although the minimum wage is now $3.35. Says Donovan, "Imagine, if we had a youth pay differential just for the summertime—it could produce 350,000 to 650,000 jobs."

The administration will seek changes in the Davis-Bacon Act again this year. The 1931 act requires payment of Labor Department-determined wages to construction workers on federal and federally assisted projects. These wages are supposed to equal the prevailing wage that construction workers earn in the area where the project is situated.

The prevailing wage has traditionally been regarded as union scale in a particular area, with the result that federal construction projects often cost 10 to 15 percent more than necessary. The Reagan administration is eager to eliminate the prevailing-wage requirement from the act.

Organized labor is just as determined to keep it. "It protects taxpayers from shoddy work by fly-by-night contractors who seek to win government contracts by paying low wages and bringing in outside workers," says an AFL-CIO spokesman.

In December the House voted down an attempt by Rep. Charles W. Stenholm (D-Tex.) to exempt future highway, bridge and mass transit construction and renovation work from provisions of the Davis-Bacon Act.

Business leaders believe Stenholm's amendment would have created up to 40,000 additional jobs without added cost to the taxpayers. They have vowed to continue their fight to eliminate the prevailing-wage provision.

The Walsh-Healey Act also may come

PHOTO: ANDY LEVIN—BLACK STAR

The 98th Congress may be receptive to labor legislation supported by AFL-CIO President Lane Kirkland, including bills creating public works jobs.

under attack this year. The 1936 act, which applies to work done under federal contracts, requires that overtime rates be paid for any work over eight hours in one day. Organized labor calls the eight-hour day "America's oldest labor standard." The administration has spoken out for an amendment that would permit regular pay for a 10-hour day.

IN ADDITION, the administration will support a hefty package of bills to reform the Occupational Safety and Health Administration. Since 1971, when it was created, OSHA has irritated business with its regulation of the workplace. OSHA has been, Donovan says, a "crime and punishment agency." The reform bills will seek to convert OSHA from an adversarial position to a cooperative posture in its relations with employers.

The U.S. Chamber of Commerce, a strong supporter of OSHA reform, will join many small business organizations in urging Congress to amend the law so that it more nearly coincides with administrative changes made by OSHA's director, Assistant Labor Secretary Thorne Auchter, in the last two years. Auchter has emphasized helping employers comply with standards through consultation, rather than forcing compliance through the threat of penalties.

Continuing high unemployment is certain to lead to legislative proposals to provide jobs through federal projects, to the delight of organized labor and the chagrin of the administration. Some unemployment relief is certain to arise from the 5-cent increase in the gasoline tax passed by Congress late last year. Donovan predicts that numerous road and bridge jobs funded by the increase will be on line before spring.

"Many new projects already are out of the design stage," he says, "and we can expect much of this new money will be spent on restoration and rehabilitation, for which preliminary design work is relatively rapid."

Expected to reappear in the 98th Congress is the immigration reform bill, an administration-backed proposal to deal with illegal migration into the United States and its labor market. The bill, passed last year by the Senate, called for tougher enforcement of immigration restrictions, an amnesty program that would give U.S. citizenship to many illegal aliens already in the country, and penalties for employers who knowingly hire illegal aliens.

THE BILL DREW criticism from organized labor, which feared that more foreign workers would be taking Americans' jobs, and from business, which attacked the requirement that employers enforce the immigration laws by running checks on the legal status of job applicants.

Nevertheless, says Sen. Alan K. Simpson (R-Wyo.), its principal sponsor, "I am excited about the bill's prospects of passing the next time."

A next time is expected for another reform that failed to pass last year. Under the 1927 Longshoremen's and Harbor Workers' Compensation Act, longshoremen are compensated for on-the-job injuries. In 1972 Congress expanded the injury benefits to include workers in "related" industries, such as shipbuilding and harbor construction. The shipping and insurance industries, with the support of business and the administration, want to return to the restrictive compensation benefits of the 1927 act.

The administration's highly publicized bill to create enterprise zones in distressed urban areas failed to survive committee hearings last year, but it is scheduled for reintroduction this year. The bill calls for tax credits, tax relief and regulatory relief for businesses that start up in distressed areas and thereby create employment opportunities.

There will probably be a renewed effort to persuade Congress to overturn a 1980 law that imposed strict new standards on union-negotiated "multi-employer" pension plans—plans that cover employes of many different companies within the same industry.

EFFECTS OF THE LAW, which requires companies in certain situations to pay large sums to their employes' pension funds, have been catastrophic, some business groups say. The American Trucking Associations, for example, says the law has made it nearly impossible for the group's members to sell, merge or move their companies because of potential pension liabilities.

Last year did have its legislative highlights in the labor area, however. Congress passed the Job Training Partnership Act, a bill that epitomizes the coalition of labor and the private sector that the administration is trying to build.

The act calls for state and local officials and business leaders to assess their labor needs and to retrain the unemployed in their areas to fill those needs. A successor to the Comprehensive Employment and Training Act, which expires in September, the new act requires that 70 cents of every dollar appropriated to create and run the programs be spent directly on training. CETA could manage to spend only 18 cents of each dollar on training; the remaining funds went to administrative costs.

"Unemployment is primarily a business and labor problem," says Donovan.

"It is not one that government can solve, but we in government certainly can have programs on the fringes to affect the problem. And the Job Training Partnership Act is such a program. In fact, it is a keystone in the administration's attack on unemployment." □


PHOTO: DEPARTMENT OF LABOR

United Mine Workers President Richard L. Trumka (left) accepted a get-acquainted invitation from the Labor Secretary.

Donovan Seeks More Unity With Unions

When Washington insiders speculate on the possibility of midterm changes in the Reagan cabinet, Labor Secretary Raymond J. Donovan is prominent among those officials considered likely to be leaving.

The Secretary says, however, that he expects to remain in his post through 1984 and that he plans a much more aggressive policy role than he undertook in his first two years in office.

Much of the Secretary's time was pre-empted, during his first two years, by his fight against allegations that he had ties to organized crime. A series of investigations cleared him, and he retained President Reagan's backing throughout that troubled period.

Now that the investigations are over, Donovan says, "I think they had, strangely enough, a beneficial effect on my staff and the people at the Labor Department. I believe everyone worked harder, more intensely, in support of me."

One of his goals, as he enters the second half of the administration's term, is establishing better ties with organized labor.

"Our department has a meeting of the minds with labor leaders on many issues," Donovan said in an interview with Nation's Business. "Among them are foreign trade, safe and healthy workplaces, jobs to fix the country's highways and bridges."

He adds, however: "We agree on goals, but it is how we get there that creates some disagreement. Politics is ever present. Sometimes we get criticized [by organized labor] for policy, and I wonder whether it is policy or politics that we're talking about."

In the wide-ranging interview, the Secretary offered these comments on other labor policy areas:

Unemployment: "It must be separated into cyclical and structural. To solve cyclical unemployment, which occurs at intervals, in recessions, we simply must get the economy moving upward. Structural unemployment is something else; an example is the high unemployment rate among young people and minorities, and the many workers displaced by the changing nature of the job market. If all our dreams and hard work come to fruition and we get sustained growth, we can resolve the cyclical unemployment, but the needs of the structurally unemployed will still have to be addressed."

Legislated job programs: "The experts have said, and I agree, there is no program other than good, solid, strong economic growth that will have any meaningful effect on the unemployment rate. I am certain there will be some legislation in the new Congress for public sector employment; we've seen it in the lame-duck session of Congress and we saw it before that. My feeling is the same as the President's—and I had this feeling before I came here—that the quick fixes are awfully tempting, but they don't work."

Work skills: "Many of the problems thrust at the Labor Department's door in the area of hard-core unemployment really come out of our educational system. So many young people are not prepared for the job market. The Labor and Education departments have been meeting to assess and try to remedy this very problem. I don't think any of us have worked together closely enough in the past to have government make a concerted attack on this structural unemployment problem."

The Job Training Partnership Act: "If I'm proud of anything, it is this new training program. I have great hopes for it. Our goal is to have the states and their business leaders train and place 1 million workers a year under the new act."

Inflation: "To me it's the cruelest tax in the world. We've brought it down and, true, unemployment has gone up, but the trick is not trading one for the other. And I am absolutely convinced you don't have to trade one for the other. If you believe that you do, you wouldn't believe in the American dream. Throughout much of our history we have had strong employment and little inflation. But in the last 20 to 25 years we have gotten out of balance. What went haywire is that business lost incentive and so did the working man. Through tax reform President Reagan is building incentive back up. Then, too, the government has been on a regulatory binge."

The labor force: "Historically it has been true that more and more people enter the work force as the population grows so that more jobs are needed. But things are about to turn the other way; the baby boom is over. The number of new workers coming into the job market will not be as substantial in the years ahead as it has been in the past. As a matter of fact, the Bureau of Labor Statistics reports there could even be a labor shortage in the late 1980s—and that's a pleasant thought during these tough times."

The administration: "If you asked me whether we are or are not better off after the first two years of Ronald Reagan, my answer would be an unqualified, 'Yes, we are.' Everyone who is employed is better off, of course, and there are 100 million who are employed. Obviously the 12 million who are unemployed are not better off." □

ROBERT T. THOMPSON:

Taking Over at a Crucial Time

The new chairman of the U.S. Chamber of Commerce is confronting intensified attacks on conservative policies.

ROBERT T. THOMPSON, the new chairman of the Chamber of Commerce of the United States, has a smile for a trademark and a reputation for hitting hard when events demand it.

In the months ahead he will need his sense of humor. He will have plenty of occasion to live up to his reputation.

Thompson takes over the chairmanship at a time when liberals' gains in Congress and a chorus of liberal criticism around the country, coupled with economic problems, are testing the mettle of conservatives in Washington.

Is he pessimistic? Does he agree with political analysts who argue that the 1982 elections represented a setback, perhaps a fatal one, for President Reagan's economic policies?

No. "I believe the people of this country still believe strongly in President Reagan and his program. I think he should stick to it, and I firmly believe he will succeed. He is a great man, and his program is basically sound. We just need to work harder to get it implemented in ways that will make it successful. Business should unite more strongly behind the only basic economic program that will save the country."

What can we expect from the new Congress?

"I think the 98th Congress will be a lot like the 97th was in 1982, but I hope it will be more courageous and productive, especially on spending. I do not believe Congress can continue to perform as poorly as it has in recent years. The leaders of both houses must find a better way to do business. If they cannot, they should step aside."

Plain speaking is nothing new for Thompson.

Last year during a House subcommittee's hearings on the controversial immigration bill, the genial Greenville, S.C., lawyer, representing the U.S. Chamber, put on a spirited defense of the business viewpoint. When the session ended, Chairman Romano L. Mazzoli (D-Ky.) observed that, during many hearings on the subject, he had never seen a more hostile witness than Bob Thompson.

"I haven't intended to be hostile," Thompson replied with a trace of a smile. "I just wanted to be sure you understood my viewpoint—clearly."

Being sure that he is understood clearly is a Thompson strength. It is one reason why Thompson has logged an impressive number of hours on Capitol Hill as a business representative before committees or in briefing individual members of Congress on issues.

Thompson, whose imposing 6-foot-3-inch figure is well known in Washington, gained early prominence as a savvy labor lawyer.

He is credited with being the guiding force behind the successful business campaign against the common situs picketing bill in the mid-1970s. At a House hearing, one congressman demanded to know why Thompson objected to the bill, and Thompson gave a number of reasons. For example, he said, workers with no grievance against their employer would be affected if a union battling one of several firms at a construction site were allowed to shut down the whole site by picketing.

"I don't think it's fair for you to be up here testifying," the congressman said rather plaintively.

"Why?" Thompson asked.

"Because you know more about this than we do."

THOMPSON, who grew up in Columbus, Ga., and helped put himself through Emory University and its law school—he graduated in 1952—became a founding partner of his own law firm in Atlanta in 1964. A year later the firm opened an office in Greenville, S.C., and that city became its headquarters. In addition to Atlanta and Greenville, the firm now has offices in Greensboro, N.C., Columbia, S.C., Washington and New York. It serves a blue-ribbon list of clients.

Two of Thompson's three sons, Bob, Jr., and David, are members of his law firm. The third son, Randy, is a physician and is currently a Harvard Medical School fellow. Thompson is married to the former Elaine Cheshire.

At 53, Thompson becomes one of the youngest executives chosen for the U.S. Chamber's top voluntary leadership post since the organization's founding in 1912. Thompson, who had been serving as a Chamber regional vice chairman and head of the labor committee, was elected to finish the balance of the term of Paul Thayer, who left the chairmanship to become deputy secretary of Defense.

Thompson will range across the nation to keep business community activism at a high level in a pivotal period in the nation's history. Both across the country and in Washington, Thompson's

field of activity will be far broader than labor matters. He will be presenting the business position on a multitude of issues—taxation, budget deficits, Social Security reform, foreign trade and unemployment. All, he says, affect the Chamber goal of a revitalized America.

In an interview, Thompson talked about problems and solutions.

As chairman of the U.S. Chamber, what will be your top priority?

PHOTO: WAYNE PARTLOW

Robert T. Thompson will be constantly exposed to the limelight and the media as he articulates business positions on national issues. He is doing so here on BizNet, the U.S. Chamber of Commerce television network.

My top priority will be the economy, with special emphasis on reduction in government spending. To really get this country back on a clear path to economic recovery for the long term, we must bring government spending under control and keep it there.

I think that if we get our government spending problem under control, our nation and its economy will enjoy unprecedented prosperity in the 1980s. If we do not solve these problems at once, the outlook could be bleak. I believe we will solve them.

What steps will you urge that the President and Congress take to reduce the budget deficit?

I urge the President and Congress to:

- Make a bolder move toward cutting next year's budget.
- Establish a definite limitation on the future growth of government spending across the board. I doubt most people realize that the growth of government is still increasing.
- Step up the elimination of waste and inefficiency in government.
- Solve the Social Security problem immediately, on a bipartisan basis.

I personally am opposed to higher taxes by any name—"user fees," "closing loopholes" or "minor adjustments."

What are the major issues that should receive top attention from Congress?

The most important issue is government spending. The next most important is Social Security. An improving economy may take care of some of the other issues.

The Davis-Bacon Act is a disgrace. It is a 1931 labor law that long ago served its purpose. It not only is out of date but is adding substantially to our government spending problem because it artificially increases the cost of a great deal of what the government purchases. There is no excuse for Davis-Bacon staying on the books today.

Immigration is a problem that needs more study and a better solution than Congress or the administration has come up with yet. In the meantime, stepped-up enforcement of existing laws would help.

How can we get people back to work?

As the recovery comes, and I believe it is under way, people will go back to work, but the unemployment problem will not go away. There are too many people in our society without skills and without the right skills. Emphasis on technical education, retraining programs and a better system of matching people with jobs is needed. This should be done through existing institutions and businesses, with cooperative efforts among all levels of government, business and labor. We also need stronger tax incentives for training and retraining.

How important are our efforts to promote fair world trade?

Promotion of fair trade is an absolutely essential part of any real recovery program. When we can get our economy further down the road to recovery, we should launch bold initiatives to promote a more uniform program of fair trade throughout the world. The international monetary system is in trouble, but it has not collapsed because those who went on before us developed systems to deal with the problems. We need to do the same in the area of international trade.

Should business be looking to the 1984 elections, and what should business do in this regard?

The best thing business can do is work its way out of the present recession. Of course, I believe all business people should be concerned with and involved in public affairs. They should also make themselves more a part of the political process. I have found that politicians are very receptive and attentive to the views and interests of their constituents. We in business need to let them hear from us more. We also need to actively support those with whom we agree and oppose those who stand for things with which we disagree.

This certainly is not the time for business to be shy or intimidated. This is the time to make our views heard.

How can American business best influence the directions Congress will take in 1983?

The U.S. Chamber has proved time and again that nothing beats strong and coordinated grass-roots input to influence Washington. When American business is united on a big issue, it can win. The U.S. Chamber, with its large membership and communications resources, is ideally equipped to help American business do the job.

What concerns you most about our nation?

My biggest concern is the obvious need for a spirit of unity of purpose and willingness to pay the price to solve our basic problems. We need for our leaders to develop a stronger sense of unity and cooperation. We need for them to put petty politics aside for a while and get things done. We urgently need a strong bipartisan effort to rally the people of this country and move them into the era of peace and prosperity that is there for all the world.

I am not really concerned about the work ethic. It is still there and just about as strong as ever. What people crave is leadership—maybe a little statesmanship. I think our leaders today are capable of providing the direction and the inspiration if they only will muster up the courage to do so. □

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PHOTO: H. ARMSTRONG ROBERTS

PHOTO: NATION'S BUSINESS

PHOTO: H. ARMSTRONG ROBERTS

PHOTO: GEORGE OLSON

If the Supreme Court bans legislative vetoes, credit will go not to a President but to Jagdish Rai Chadha.

Will Congress' Veto Power Be Vetoed?

This man could succeed where they failed.

By Tony Mauro

THE LEGISLATIVE VETO, which Congress has been using more and more lately as a rein on the federal bureaucracy, has had some powerful enemies over the years. Every President from Franklin Roosevelt on—including Ronald Reagan, whose heart is clearly in the antiregulation camp—has spoken out against the idea.

But try as they might, Presidents have never been able to kill the legislative veto.

In the past 50 years, Congress has enacted 200 laws that allow one or both houses of Congress to undo an otherwise legal action—everything from approving arms sales to regulating the used car industry—of the President or some other official or agency in the executive branch.

Where Presidents have failed, Jagdish Rai Chadha, a native of Kenya, may succeed.

All Chadha wanted to do was to overturn a deportation order against him. But as often happens in the nation's judicial system, what began as a virtually unnoticed dispute has mushroomed into a Supreme Court case that could decide a major constitutional issue.

"I have learned a lot about the American system, but it still baffles me that such a small case as mine could become so important," says Chadha, 38, who lives in Berkeley, Calif., and sells stereo equipment.

How did Chadha get mixed up in a fight over something so lofty as legislative vetoes?

It began when Chadha, who came to America in 1966 to attend Bowling Green State University in Ohio, sought to stay here and seek work in 1973. Because his student visa had expired, immigration officials ordered him deported. But Chadha was afraid to return to Kenya; even though a native of that country, he is of East Indian extraction, and the racial tensions between Asians and Africans in Kenya were high. By citing this "extreme hardship," Chadha was able to appeal his deportation order within the Immigration and Naturalization Service and have it canceled.

A legislative veto clause in an immigration law allows Congress to overrule immigration decisions like the one canceling Chadha's deportation. On June 25, 1974, in an unrecorded veto that made no headlines, the House of Representatives decided not enough hardship had been shown in five immigration cases, including Chadha's, and his deportation order was reinstated.

Chadha fought back. "I have a right to live in this world somewhere," he says.

It took six years, but his fight paid off. Late in 1980 a federal appeals court canceled the deportation order, saying that the law allowing Congress to veto immigration decisions violated the separation of powers mandated by the U.S. Constitution. By giving itself such a veto power even in a small matter, the court said, Congress in effect usurped judicial and executive functions that the Constitution reserves to the courts and the President, respectively.

Since the appeals court's decision, judges have declared the legislative veto unconstitutional in cases involving energy regulation and a proposed Federal Trade Commission rule on used car sales. But Chadha's case arrived on the Supreme Court's doorstep first, and by accepting it, the Court agreed for the first time to weigh the veto issue.

The Court heard the case last February but left it undecided when the 1981-82 term ended last July. A second hearing was held December 7, and a decision could come soon. The justices asked few questions, which suggests that they may have already made up their minds.

LAWYERS FOR Congress urged the justices not to make a sweeping decision, but lawyers for Chadha and for the Reagan administration urged the Court to settle the issue permanently by killing the legislative veto.

"We deal here with constitutional

TONY MAURO *is the Supreme Court reporter for Gannett News Service.*

commands that are unusually explicit," Solicitor General Rex E. Lee told the justices on behalf of the administration. If the legislative veto were upheld, he said, "Congress would be home free with new powers that are not in the Constitution."

The Chadha case is being watched closely on Capitol Hill, where some members of Congress—notably Rep. Elliott Levitas (D-Ga.)—like the legislative veto so much that they want a modified version extended to all regulatory agency actions. Such a veto would be added to the regulatory reform bill supported by President Reagan.

"Administrative rules and regulations are laws," says Levitas. "We must not forget that fact. The question becomes then: Are we going to continue to let the unelected bureaucrats continue to pass laws without effective congressional control?"

Under Levitas' plan, cosponsored by 254 House members, one house of Congress could veto a regulation if the other house did not disagree. Although Reagan is cool to the idea, he is expected to sign the reform bill even if the legislative veto is included.

Liberals, too, are torn on the issue. They oppose the legislative veto when it is used to restrict regulatory agencies, but they favor it as a check on presidential war powers and arms sales.

"Our position is that they are all unconstitutional," says lawyer John Sims of the Public Citizen Litigation Center, a Ralph Nader group that is supporting Chadha. "It's unfortunate, but there is no real way to distinguish between vetoing used car regulations and vetoing arms sales."

The Federal Trade Commission's proposed rule on used car sales provoked the most widely publicized battle over the legislative veto.

Relying on its legislative mandate to combat deceptive sales practices, the FTC issued a regulation that would have required used car dealers to reveal any known defects in a car offered for sale and to specify warranty provisions in a sticker affixed to the car.

AUTO DEALERS condemned the rule as unworkable, claiming that it would require them to make expensive inspections of each used car. Congress responded last May by invoking for the first time a 1980 law that is the most sweeping form of the legislative veto so far—a majority vote by both houses of Congress can cancel any regulation the FTC proposes.

Consumers Union challenged Congress' action in court, and last October 22 a unanimous District of Columbia federal appeals court said the law violated the separation of powers. "The legislative veto," says Ellen Broadman, a lawyer for the consumer group, "allows special interest groups to come to Congress and buy exemptions from the laws of the land."

In January, 1982, the same federal appeals court had struck down a section of a 1978 law giving either house of

PHOTO: GEORGE OLSON

Congress vetoed an FTC rule requiring used car dealers to post this notice disclosing a vehicle's known defects.

Congress a veto over natural gas price decontrol regulations issued by the Federal Energy Regulatory Commission. That provision, the court said, allows Congress "to expand its role from one of oversight, with an eye to legislative revision, to one of shared administration."

In the Chadha case, the Supreme Court may issue a narrow ruling that does not settle the basic question of the legislative veto's constitutionality. But if the Court rules decisively against the legislative veto, that may lead to even more confrontations between the executive and legislative branches.

James Sundquist of the Brookings Institution predicts that Congress, if deprived of the legislative veto, will seek other ways to exert its power.

"If the executive branch finally wins its case against the legislative veto," says Sundquist, "it will live to regret its victory. Conflict will increase within the government, many deadlocks between the branches will prove unbreakable, and problems that demand urgent attention will go unresolved."

But Chadha's fight at least will be over. In the middle of his campaign against deportation and before the appeals court ruled, he married an American citizen and so became entitled to remain in this country.

"I want to stay in America," says Chadha. And what sort of future does he envision for himself, after setting in motion the judicial machinery that may squelch the legislative veto?

"Someday, I think I would like to go to law school." □

It's an Idea Congress Likes

It began in 1929 when President Hoover asked for power to reorganize the government. He proposed letting a congressional committee ratify his actions.

Three years later Congress passed a bill providing for such a veto, and it has liked the idea ever since.

If the Supreme Court rules broadly on the issue, many and perhaps all of those laws could be affected. Here are some of the major statutes with legislative veto provisions:

- Congressional Budget and Impoundment Control Act of 1974, which gives either house the power to prevent presidential impoundment of funds appropriated by Congress.
- War Powers Resolution of 1973, which enables Congress to force the President to remove U.S. armed forces from foreign hostilities if war has not been declared.
- Act for International Development of 1961, which allows Congress to terminate some types of foreign aid by concurrent resolution of both houses.
- International Security Assistance and Arms Control Act of 1976, which enables Congress to cancel foreign arms sales.
- Nuclear Nonproliferation Act of 1978, under which Congress can disapprove proposed exports of nuclear technology.
- Outer Continental Shelf Lands Act of 1978, which permits either house to disapprove oil and gas lease bidding policies of the Secretary of Energy.
- Natural Gas Policy Act of 1978, which enables Congress to veto extension by the President of natural gas price controls when they expire later in this decade.
- Energy Security Act of 1980, which gives either house the power to veto presidential synthetic fuel development proposals.

A New Career Built With Cement

By Grover Heiman

CONVENTIONAL WISDOM warns that cyclical businesses should hedge their bets by diversifying. But James E. Stewart, chairman of Lone Star Industries, Inc., doesn't subscribe to that axiom. In 1979 his firm, based in Greenwich, Conn., disposed of a chain of 131 home improvement centers so that it could concentrate on upgrading and expanding its basic activity, cement production.

"I'm a purist," says Stewart. "You should do the thing you do best."

Not that the Lone Star Building Centers weren't doing well—they accounted for sales of $453.5 million in 1978, the year that Lone Star first rose above the $1 billion mark in sales. (Estimated sales in 1982 were $900 million, due to the reduced demand for cement and concrete.)

In past recessions, while housing wallowed in the doldrums, the home improvement business prospered by comparison—people were fixing up their old houses rather than buying new ones. That was a major consideration in 1971 when Lone Star Chairman John R. Kringel engineered a swap of $35 million in stock for a Minneapolis-based home improvement chain, then known as National Building Centers. The founder and developer of the chain, James E. Stewart, acquired 10 percent of Lone Star's stock and became a member of the board.

At the age of 49, Stewart retired to Switzerland. He kept busy hunting mushrooms and climbing mountains. He also took singing lessons and honed his technique on the piano, saxophone and clarinet. Music was the career Stewart had wanted as a young man, but his interest had lain somewhat dormant for 20 years.

Stewart insists that he was happy in retirement—"I wasn't bored"—but in 1973 he was back in the United States and living in a Manhattan apartment. He had become concerned, he says, about trends at Lone Star. "They were into carpet mills, iron ore and a Volkswagen distributorship on Guam. I said: 'Hey, that's my money. I'd better get my tail back there.' "

At his insistence Lone Star created an executive committee, with Stewart as its head. During the two years he served as chairman of the executive committee, Stewart kept busy by starting a chain of heating and air conditioning centers (later sold to ITT) and a ready-mix concrete business in booming South Florida. When Kringel resigned as chairman and CEO in 1974, Stewart moved into his seat.

Lone Star wasn't necessarily headed

for a crash in the mid-1970s, but its new CEO brought with him a particularly good survival record. He compiled it when he was piloting his own airplanes.

One time he was off Monaco, piloting a PBY flying boat, when the hydraulic system failed and he was trapped in the cockpit while the aircraft sank; he barely managed to escape. Years before, the engine of his converted B-23 bomber exploded over Arizona one night. He brought the flaming craft down to a crash landing. And there was the time, over Florida, when a prop tip flew off a twin-engine Beechcraft; the engine was torn from the wing, and Stewart had to survive a crash landing then, too.

"Life was never dull," Stewart says of his days as a pilot. "I still try to keep it that way."

Now he flies only as a passenger in his personal BAC-111 jet, which has among its amenities a piano in the cabin. His real home, he claims, is that airplane, because he spends more than 500 hours a year aloft. On the ground, his home—built from 10 million pounds of concrete—sits on Indian Creek Island near Miami. When he is not in the air or in Greenwich, Stewart lives there with his wife, Averill. (He has two grown adopted children from an earlier marriage.)

Stewart, who was born in 1922, in Minneapolis, can trace his entrepreneurial instincts to his father, George, a native of Nova Scotia, who started a small lumberyard in a not-too-desirable Minneapolis neighborhood. For a small amount, a local investor got 51 percent of the firm; for his sweat and expertise, George Stewart got 49 percent.

At the age of 10, Jim Stewart went to work in the lumberyard after school; he spent summers working there, too. After grade school in Minneapolis, he finished high school at Shattuck Military Academy at Faribault, Minn., where he played the piano and the saxophone in the school band.

SETTLED ON a career in music, he entered Washington and Lee University in Virginia; he later transferred to Pomona College in California, to be nearer to Hollywood. He had a clear goal by then—he wanted to be a Hollywood songwriter. But World War II intervened. His military school education brought him a commission and assignment to Gen. George Patton's embryonic armored force. But a tank accident put him in the hospital for a year. When he returned to duty, he was posted to special services.

Stewart was given the job of obtaining films from the Hollywood studios to be used in educating German and Italian prisoners of war in the principles of democracy before they were released. Many Hollywood personalities said something like this: "Listen, lieutenant, when this is all over, look me up."

When the war ended, Stewart took his discharge and prepared to launch a songwriting career. He started looking up people who had befriended him in Hollywood.

"I couldn't get past the receptionist or the switchboard operator," he recalls with a rueful smile. "I tried to make it for several years and finally concluded that I apparently didn't have the talent. I wasn't a musical genius."

So in 1950 he went back to Minneapolis. His father was in failing health—caused, Jim Stewart is convinced, by a broken promise. The original investor had instructed his heirs in writing that on his death George Stewart should have the option to buy his 51 percent of the business. But when the investor died, his heirs refused to honor his wishes.

Jim Stewart worked in the lumberyard, running it for the last three years of his father's life. Before he died in 1953, George Stewart got another promise in writing: that Jim would continue as president when George died. George Stewart died on a Friday. On Monday, when he went to work, Jim Stewart learned he was being fired.

Not one to run from a fight, Stewart insisted on being given the option to buy the firm. The executor of the investor's estate was amenable—for $10,000 Jim Stewart could have a 30-day option to buy the 51 percent for $353,000.

"I didn't have any money," Stewart recalls, "but I started scurrying around and raised the $10,000 and promises of more. I showed one man the property and he agreed to a loan, but it would take some time. He told me to have the executor call him, and he would assure the man that I would get the money."

Stewart went to the executor, who took the option agreement from his file and read it aloud, word for word. Then the executor said: "I don't intend to make any phone calls and there are no extensions. When your 30 days are up, you lose your $10,000. That's it."

Time was running out. On the advice of associates, Stewart called a factor in Chicago, the Walter E. Heller Company. It was during the lunch hour, and the only person in the office—Walter Heller himself—answered the phone. Stewart laid out his situation, and Heller told him: "Bring your stuff and come on down here."

Stewart got the loan from Heller and with it lessons on how to move money around. As part of the arrangement, Stewart went to Chicago once a month and reviewed his situation with Heller, who then advised him on what to do next. "I got a wonderful college education from those sessions," Stewart says.

Heller introduced Stewart to John D. MacArthur, the head of Bankers Life & Casualty Company (NATION'S BUSINESS, July, 1974).

Stewart wanted to expand his lum-

PHOTOS: DANIEL KRAMER

Although no longer an active pilot, James Stewart travels extensively by private jet and helicopter to Lone Star's 44 domestic and foreign operations.

beryard to serve the growing number of do-it-yourselfers. MacArthur lent him $250,000, but with an admonition: "Stewart, if you don't pay on time, miss one day, I'll foreclose on you. No hard feelings, but if you take this money, you'll have to make payments on time." Stewart scrimped so that he could stay two payments ahead.

Stewart's business prospered, and by 1960 he was ready to expand. This time he would need millions. He had his eye on a chain of more than 50 lumberyards, some good, some bad. He thought if he disposed of the bad yards, he would have the nucleus of an expandable chain.

Associates put him in touch with financier Henry Crown, who agreed to back him. Stewart bought the lumberyards, sold off the bad ones and repaid Crown within six months.

Impressed, Crown then agreed to bankroll Stewart's idea of a chain of home improvement stores. They became partners and Stewart went hunting for more stores. A phone call to Crown was all it took to get the needed million or so to close a deal.

The chain grew and prospered, but in the late '60s, while on a vacation in Switzerland, Stewart decided that his business was getting too big; he was tired. He went looking for an investment banker to arrange a merger. He picked Lazard Frères because he was impressed with Felix Rohatyn, a Lazard partner.

"I was looking for a business with an inventory that didn't deteriorate," Stewart recalls. "Felix got me interested in cement. In good times or bad there is a market for cement."

Stewart's home near Miami incorporates the latest in concrete and polymer concrete technology. Approximately 10 million pounds of cement went into this unusual structure on Indian Head Island.

WHEN Jim Stewart began running Lone Star in the mid-1970s, the firm had 7.5 percent of domestic cement production capacity. That remained essentially unchanged until 1978, when Stewart stunned the Lone Star board by proposing that the corporation sell off the home improvement centers and invest in more cement plants. Stewart envisioned an expanding market for cement in the 1980s and thought Lone Star should start preparing. It would take lots of money and time. The board went along.

With over $250 million available from the sale of the chain and other sources, Stewart bought cement plants in Utah, Oklahoma and Illinois. Last year Lone Star purchased Marquette Company, a Gulf + Western subsidiary with plants in Missouri and the Northeast. In a few years, Lone Star's share of domestic production rose to over 14 percent.

Lone Star now has 20 cement plants in the United States, five in Brazil, two in Argentina and one in Uruguay. The firm has 12 aggregates plants (gravel, sand) in the United States, a calcium aluminate cement plant, a plant that makes concrete railroad crossties, and real estate development and sales operations in Hawaii and Texas.

Lone Star is a leader in the production of cement, sand and gravel and a major producer of crushed stone and precast concrete products. Jim Stewart is excited by the potential for products made from a mixture of concrete and polymer. "We are looking for new products," he says. "We aren't an ordinary cement company."

Although Stewart's strategy has its critics, it also has admirers, especially as it pertains to cement plants. Such plants require massive amounts of capital, and because of environmental regulations they can take four to six years to build. (Lone Star also has purchased plants that needed extensive overhauls.) Because Stewart insisted that the company plan for the long term, it now is ready for a future that seems bright.

The deteriorating interstate highway system must be rebuilt, thousands of aging bridges must be replaced, airport runways must be strengthened—all requiring millions of tons of cement. And that is not even mentioning the heavy demand for housing ahead.

Stewart obviously learned well from Heller, MacArthur and Crown, but the student has become a titan in his own right. His salary, incentive compensation and other benefits as Lone Star's chairman and CEO totaled $414,000 in 1981. However, Stewart's office in Greenwich is modest and functional, in keeping with his philosophy about offices: "Places people go to keep other people from working."

Stewart hasn't built a reputation as a workaholic; he professes to love work, but he works at his own pace and at times of his own choosing. He usually starts at 3 a.m. and works until dawn. "That's when I'm most efficient," he says. "I work this way seven days a week because I want to."

He nurtures a shirtsleeve atmosphere and sees his role as monitoring the people he has put in charge; he expects them to make decisions on their own.

In dealing with his managers he keeps the meetings brief and the attendance small. "I like to get things done quickly, and I've found that the smaller the group the better the decision," says Stewart.

His interest in music has helped him as a manager and leader, he says. "In business, as in music, you need an arrangement and teamwork. In music you get a group of guys together and everyone has to come in at a certain point. The same thing happens in business. It has to be harmonious."

If Stewart has correctly anticipated a resurgent demand for cement and related products, how sweet the music soon will be for Lone Star.

In the meantime, there is the other music. This year, he will be at the Bohemian Grove in California for that club's annual retreat, teaming up with actor James Stewart to put on the "Two Jimmys Show." Says Lone Star's Stewart, "I do an impersonation of Joe E. Lewis, the comic, and follow it with a ballad."

So Jim Stewart hasn't entirely given up on the world of entertainment.

"Rodney Dangerfield hasn't called me and offered a week at his club, but if he did, I'd jump at it," Stewart says with a Walter Mitty-like glaze over his eyes. "I'd love it!" □

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You maintain:	Hardware and software	Nothing
You manage:	Data processing	Your business
You get:	Tools	Answers
Your system:	Becomes obsolete	Is continually updated
You grow:	By repeating all of the above	By repeating all of the above

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GM GMC Truck & Coach General Motors Corporation

DO YOUR PROFITS LOOK LIKE THEY'VE BEEN HIT BY A TRUCK?

These days, whether you're in the trucking business or simply use trucks in your business, you're confronted with the same problem. Rising truck operating costs. It's no wonder that some companies' profits look like they've been hit by a truck. Because they have.

As a result, fleet managers are taking a very hard look at controlling costs. Wherever and whenever they can. And some of them are finding big savings in unexpected areas. For instance, one big fleet found it was paying twice as much for its annual paint jobs as it should have. Correcting that situation resulted in savings of over $40,000 a year. Other managers have found that engine rpm running a little high, or tire inflation a little low, can drain off thousands of dollars annually in increased operating costs. Concerns about truck maintenance have moved from the garage service bays to the front office of management.

The message is clear: Anything less than a fully efficient truck fleet is bad business.

With that in mind, right here seems a most appropriate place to put in a word for the product sponsoring this message: GMC trucks.

At GMC our aim, quite simply, is to offer trucks that know how to succeed in business—your business.

Just consider a few of the things that were done to make our trucks look beautiful to your bookkeeper. Like our Dragfoiler. We developed it and made it available on our heavy-duty GMCs. It can help keep air resistance from wasting your fuel. Your GMC heavy-duty truck dealer will be happy to give you a booklet on the subject. Then there's our full line of full-size diesel powered trucks: pickups, vans, Suburbans and Jimmys. The wide selection of available Detroit Diesel, Caterpillar and Cummins diesel engines in our heavy-duty GMCs. The maintenance-free Delco Freedom Battery in all GMC trucks. And so on.

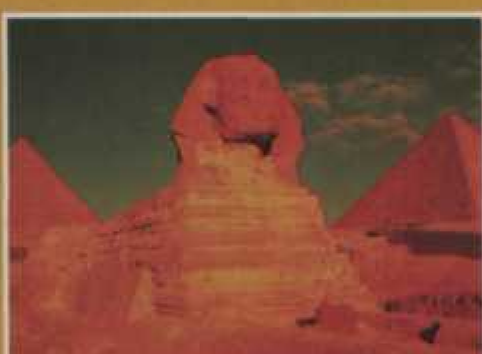
Of course, there are lots of other ways GMC trucks can help cut your operating costs. The point being, that whether your trucking needs are large or small, our whole line is built with your bottom line in mind.

See your GMC truck dealer about some trucks that'll be good business for your business.

GMC

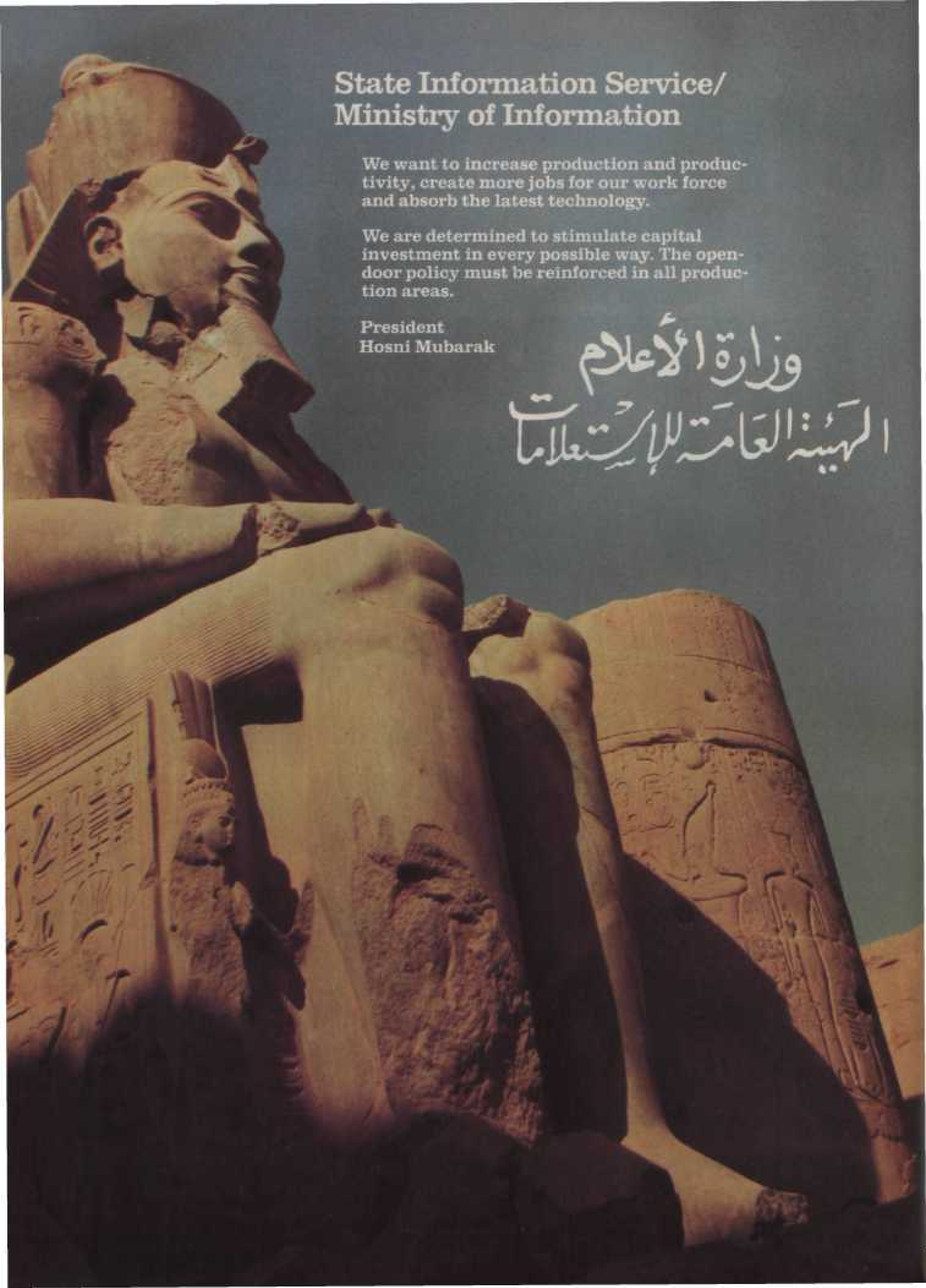
TRUCKS ARE WHAT WE'RE ALL ABOUT.

EGYPT



Top: Cairo and El-Tahrir Bridge.
Above: Sphinx and Pyramids.

**President
Mohamed Hosni Mubarak**



State Information Service/
Ministry of Information
We want to increase production and productivity, create more jobs for our work force and absorb the latest technology.
We are determined to stimulate capital investment in every possible way. The open-door policy must be reinforced in all production areas.
President
Hosni Mubarak
وزارة الأعلام
الهيئة العامة للاستعلامات

EGYPT

Your Open Door to Opportunity

EGYPT TODAY is a self-governing constitutional democracy. It is also a leading intellectual and cultural center for the Arab world.

The country is enjoying a rapid economic growth—it maintained during the past five years annual real growth rates ranging from 8 to 10 percent. In the new five-year development plan, the target for annual growth in real gross national product will be 8 percent. Existing economic pressures notwithstanding, the country continues to pursue a prosperous rate of development.

Projected public and private sector investments under the plan for 1982/83-1987/88 have nearly doubled: from 18.3 billion Egyptian pounds to 34.5 billion.

Public sector investment is to reach 26.3 billion, or 76.2 percent of total investment; the private sector's share is expected to reach 8.2 billion, or 23.8 percent. The main axes on which development is being staged are:

- oil
- industry
- agriculture
- tourism
- joint ventures

Peace and economic growth have brought a measurable inprovement in the people's lives. Egyptians are today enthusiastic partners with the government in the job of making the country stable and prosperous.

The Open Door Policy

Egypt's Open Door Policy reflects the changing economic situation in the Middle East and Egypt's important position in the region. Having taken significant steps to establish a socio-economic foundation, Egypt now invites the participation of outside investors in joint ventures or wholly foreign-owned projects.

President Hosni Mubarak, in his first speech to the Parliament after being

Cairo, Egypt's bustling capital, sits on the banks of the Nile.

EGYPT

The Hilton Hotel in Cairo looks out over the Nile and the city's skyline.

sworn in as President, explicitly assured the continuation of the Open Door Policy.

At present, opportunities for investment in Egypt are unique. Foreign business will find both a generally favorable investment climate and a wide range of specific investment opportunities. The private Egyptian sector has been rehabilitated and encouraged in a new liberal climate.

Official Egyptian policy welcomes foreign investment, especially in productive ventures. Law 43/77 concerning investment of Arab and foreign funds and Free Zones is the cornerstone of Egypt's Open Door Policy. For smooth application of the law, the ministerial decree 375/77 was issued introducing a set of rules and procedures for the execution of the law's provisions with utmost possible efficiency.

The General Authority for Investment and Free Zones, commonly known as GAFI, administers the law. Its main functions are to appraise projects, negotiate terms and conditions, assist in obtaining permits and authorize remittance of profits. It also supplies basic information needed for the preparation of feasibility studies, helps established projects gain access to market opportunities and reports appraisal results with recommendations to the board of directors. Law 43/77 has made a clear distinction between inland and Free Zone investments.

Investment

For inland investment, priority is given to the projects that reduce imports of basic commodities, generate exports or encourage tourism, as well as those that require technical expertise or make use of patents or trademarks of worldwide reputation.

In general, foreign investment is needed in:

- Industrialization, mining, energy, tourism, transportation.
- Land reclamation and development of animal and water resources.
- Office building construction and urban expansion projects.
- Construction contracting in which Egyptian capital is at least 50 percent.
- Technical consultant activities in joint ventures.
- Investment banks and companies, commercial banks and reinsurance companies whose activities are limited to

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Irrigation is a vital part of Egypt's land reclamation.

EGYPT

transactions in free foreign currencies.

• Banks engaged in local currency transactions, provided that Egyptian capital in the joint venture is at least 51 percent.

According to the law all approved projects and invested capital are granted privileges with respect to exchange control and repatriation of profits and capital, exemptions from taxation and customs duties, exemptions from certain labor laws, and guarantees against expropriation and confiscation.

The invested capital can be in the form of:

• Foreign exchange for the purchase of equity capital or as equity participation and for feasibility studies.

• Raw materials, unused machinery and equipment.

• Intangible assets, such as patents and trademarks.

• Reinvested profits.

• Foreign exchange transferred for the purchase of Egyptian securities and stock on the Egyptian stock market.

Free Zones

The abundant supply of low-cost, highly skilled labor makes Egypt's Free Zones attractive sites for manufacture or assembly of goods for export. Free

The east port of the prosperous Egyptian port of Alexandria, one of the busiest on the Mediterranean.

Citrus exports being shipped.

Industrial development is an important part of the Egyptian government's five-year plan for 1982/83-1987/88.

Egypt's Oil Industry: Nerve-Racking Job

by Abdul Hadi Kandil
Chairman of the Egyptian General Authority of Petroleum

Petroleum has become one of the top four sources of the country's foreign exchange revenue. Others are remittances from Egyptians working abroad, Suez Canal royalties, tourism and revenues from other industrial and agricultural exports.

The petroleum industry therefore plays a dynamic role in the financial backing of the comprehensive economic and social development plans currently under way in the country. The October War of 1973 and the oil crisis that ensued made this role possible.

But for the upheaval of the war, things would have remained as they were in the pre-October War era. For instance, the total value of our crude oil exports in 1980 would not have exceeded $302.4 million, calculated at 1972 prices. As a result of the October War and the drastic changes in its aftermath, the same quantity of crude oil exports in 1980 earned the country more than $2 billion.

Thanks to the economic Open Door Policy, on which Egypt embarked after the October War victory, the country regained its weight in the world political arena, and international petroleum companies began to compete in Egypt. Concession agreements for the exploration and exploitation of oil on land and offshore amounted to 70 within the past decade.

But for the October War, the Suez Canal, which is, first of all, an international oil artery, would have remained blocked and would not have become a major source of the country's foreign currency income.

Efficiency, dynamism and expertise linked with a genuine determination to strike the country's oil bonanza have all resulted in the soaring volume and value of our crude oil exports.

As recently as 1980, the main task of the petroleum industry concentrated on intensifying exploration and new oil discoveries so that the exports could be increased and the revenue of foreign currency multiplied.

The boom of the world oil market continued in spite of the declining demand because of the world recession, tight-belt economic policies and energy preservation schemes, which the industrialized countries had been adopting since the October War. Prices reached a peak in 1980, when light Arab crude sold at $32 per barrel. But in that year OPEC raised prices to a range of $36 to $42 per barrel.

This peak did not continue long, which had been expected by the Egyptian petroleum industry. Fortunately, the petroleum sector had been on the alert to adapt itself to such fluctuations. We predicted the decline in world demand as the Common Market countries and the International Energy Authority members reduced their consumption—and consequently their demand—in a move that surprised oil-exporting companies, which had based their calculations on the possibility of a potential oil shortage, particularly in view of the Gulf War. On the contrary, no scarcity of supply took place as the demand by the 21 I.E.A. members, which alone consume seven tenths of the world crude oil output (outside the Eastern Bloc), was reduced by 13 percent in 1980, and by 13.1 percent in 1981. The decline continued in 1982.

This situation was hard on the exporting countries. OPEC and other exporting countries began to face a very critical situation, which resulted in the present disarray of OPEC. Exporters began to discount posted prices and allowed favorable payment terms, which reached six months in many cases. Therefore, the actual price per barrel ranges between $25 and $28.

To face the disastrous challenge, the OPEC countries agreed on an output limit not exceeding 17.5 million barrels per day, assigning quotas for the member states. This means that OPEC reduced its 1982 output 39.3 percent from 1979.

In view of the world oil glut, the depressed world market posed a difficult challenge for the Egyptian petroleum sector. The new formula requires the petroleum sector to:

1. Be the top source of foreign exchange revenues.
2. Maintain its value as an economic asset contributing to development.
3. Increase annually this value and the share of contribution towards development.

Two major objectives had to be realized for us to be able to adapt ourselves to the new circumstances. The first was to achieve a steady increase in annual production, which means maximization of already intensified exploration, at a time when other exporting countries have been reducing their production drastically. The second objective was to obtain good prices for our crude output despite the oil glut. These are measures of our success:

- In 1980 Egypt's crude oil output went up 17 percent, whereas OPEC production went down 14.2 percent, and output of the non-Communist world dropped 6.5 percent.
- The increase in Egyptian crude oil output continued in 1981, with a gain of 4.9 percent, whereas in the non-Communist world it went down 8.

Egypt's revenues from oil exports increased 71.5 percent in 1980 (the year crude oil prices reached their peak), and in 1981 the value of exports increased 4.5 percent. ■

Hilal: Egypt Survived World Oil Glut

Though oil was discovered in Egypt a long time back, the country did not emerge as an oil producer until recently. Over the years, however, the national industry managed to acquire significant experience and expertise. Exeddin Hilal, a career engineer, is the Deputy Prime Minister for Production and Minister of Petroleum and has been in charge of the development of this national industry since it came of age. In this interview, Mr. Hilal gives his thoughts on some of the major issues of interest for both general readers and experts:

Q. Egypt basically depends on oil as a source of energy. However, oil sales revenues are badly needed to meet the financial requirements of the nation's economic and social development programs. Would you explain how the oil sector managed to simultaneously meet these two seemingly contradictory needs?

A. The key to our success in this regard is the fact that we followed a clearly defined strategy based upon a realistic understanding of the facts of life, rather than upon daydreams.

One fact of life is that oil today, as well as for the foreseeable future, stands as the main source of energy in Egypt, particularly as far as the transport sector is concerned. Without oil, the transport sector will be denied its life's blood. As a consequence, we are required to meet current needs for oil and, equally important, to leave sufficient reserves for our future generations.

Another fact of life for Egypt is that oil will be the country's primary source of foreign currency until export-oriented industries can do the job. Therefore, oil sales revenues in foreign currency should be made available to social and economic development programs. This is the critical formula that the oil sector should take into consideration.

Q. Would you summarize the strategy followed by the oil sector in Egypt?

A. Our strategy is based upon conscious calculations of our potential and needs. As regards crude oil and natural gases, Egypt was in the forefront of those countries that discovered crude oil in such quantities as to permit commercialization. However, Egypt did not become a major oil producer. This is quite an asset, rather than a drawback, as some may tend to believe. Our national oil industry went through gradual stages of natural development, enjoying the availability of a high caliber human element until it eventually reached a stage of maturity. The complexity of the geophysical structures, whether in the case of earth layers or under the seabed, have presented our national industry with considerable difficulties, but have equally provided us with superb experience.

As a developing country, Egypt could not afford financing extensive drilling operations, which would have required huge funding, to the detriment of national development programs. It was therefore most appropriate for Egypt to resort to cooperation with international companies having huge financial capabilities. This, in fact, was the sole option available for us to solve the critical formula earlier referred to. Moreover, the highly advanced technological potential of those companies enabled Egypt to develop and support the army of technicians we have, many of whom were employed by those same companies.

I should also like to state that those companies have spent some $1.5 billion to finance drilling operations alone—a sizeable contribution that would otherwise have become a government responsibility. Our efforts in this direction have resulted in 44 discoveries between 1973 and 1982. This figure includes seven natural gas fields. On the whole, these discoveries significantly supported our national reserves of crude oil and natural gas in such a way as to serve the interests of our future generations. As for the role of oil sales revenues in financing the national economy, it should be made quite clear that such a role could be played effectively only when our national reserves of oil would permit us to increase the volume of oil exports. The world oil market has been suffering since late 1981 from an ever-increasing glut that required OPEC members to lower production by some 16 percent, but Egypt is the only oil-producing country that has not lowered its production rate. It has, moreover, managed to increase production despite the spiraling increases in the prices of the oil products that we import. The oil sector has therefore continued to pump foreign currency into our national economy.

Q. Some people question Egypt's concentration on capacity as a crude-oil producer country rather than on capacity to refine crude and export the refined products. What is your answer?

A. This is certainly a reasonable question. However, it does not correspond to what I have earlier termed the facts of life. Crude refining plants outside the Communist world are operating at only 70 percent of productive capacity. In western Europe, refining facilities are operating at not more than 65 percent of their capacity. Consequently, the more we concentrated on exporting refined crude extractions, the more financial losses we would suffer. ■

EGYPT

Zone areas have been established in Cairo, Alexandria, Port Said and Suez. Investors may rent a plot of land for their projects.

Port Said was declared a Free Zone early in 1976. An investor may also establish a private Free Zone area if he finds this to be more convenient for his activity.

The Port Said and Suez areas' locations at the north and south ends of the Suez Canal offer attractive opportunities for the development of Free Zones and related free port activities. The government has undertaken to construct the harbor facilities and develop the necessary infrastructure for the establishment and successful operations of the zones.

Free Zone activities are classified as follows:

- Storage of transit goods.
- Sorting, cleaning, mixing, blending, repacking.
- Manufacturing, assembling, mounting.
- Pursuing any occupation warranted by the activities of or services needed by firms working within the zone.

Projects in the Free Zones are exempted from customs duties and taxes. They are guaranteed against nationalization and confiscation, and they are exempted from certain provisions pertaining to workers' participation in profits and management.

Goods withdrawn for domestic consumption whose local components account for at least 40 percent of the manufactured product are subject to a 50 percent reduction of customs duties payable on the ad valorem values of foreign materials contained in the manufactured product.

These are recent developments in the decentralization of GAFI's decision process:

- At present the deputy chairman can approve small projects without having to have the approval of the entire board.
- Egyptian banks and insurance companies are allowed to have equity positions in projects based on their own board recommendations, eliminating the necessity of the Prime Minister's approval.
- The requirements that foreign investors denominate their capital in Egyptian pound equivalents has been eliminated, permitting denominations in any currency.
- Taxes have been exempted on the increase of capital of the existing joint ventures. Future plans for increasing the efficiency of the investment process in Egypt include developing the already defined system for processing investments. A time limit for assessments and official replies would be well known in advance to both potential investors and investment authority officials.

Under current procedures an investor is likely to receive a decision within 90 days if he submits an adequately prepared proposal and feasibility study to the authority.

Through the end of June, 1982, 1,627 projects with a total equity capital of about 4.8 billion Egyptian pounds and investment costs of 10.6 billion pounds had been approved under law 43/77.

Of the 1,627 approved projects, 728 (or 45 percent) have begun production whereas 411 (or 25 percent) are in the preproduction stage, i.e., where construction has begun.

The U.S.-Egypt Bilateral Investment Treaty

Mr. Ismail Roushdy, First Secretary of the Egyptian Embassy in Washington (Commercial and Economic Office), said

Agriculture is one of the main axes on which Egypt's development is being pursued.

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that various efforts by both the Egyptian and American governments have been directed at stimulating and diversifying investment in Egypt.

The latest achievements in that field:

1. The signing of the bilateral investment treaty on Sept. 29, 1982. This treaty is to provide means for encouraging and protecting investment as well as creating a favorable investment climate by:

• Providing guarantees against non-commercial risks, such as nationalization, confiscation, expropriation.

• Providing for the settlement of investment disputes through consultation,

First Secretary Ismail Roushdy

Famed Egyptian cotton is prepared for export from Alexandria .

Some guests at the Marina Sharm Hotel stay in air-conditioned domes. Guests at the Nuweiba Holiday Village (below) enjoy the Red Sea.

EGYPT

Attaining Food Security

Modern technology turns the desert green at El-Salhia.

Although Egypt's agricultural lands are known to be the most productive in the world and its current 6 million acres yield about 12 million acres' worth of products or an average of two crops annually, the country's food needs are greater than what it actually can produce.

In 1974, for the first time in the country's history, the value of food imports exceeded the value of agricultural exports. Today Egypt imports over half of its food needs.

Through both horizontal and vertical expansion, Egypt is exerting maximum efforts to increase its agricultural production. Methods include more intensive planting, improved irrigation and drainage, improved input availability and expansion in research and development.

The country plans to maintain a 2 percent increase in agricultural land per year (equivalent to an additional 120,000 acres) in order to meet the increase in population and consumption.

In the field of land reclamation, because the Nile Valley is bounded by desert on the East and the West, invading the desert has become one of Egypt's main hopes for increasing its agricultural land area.

The Salhia Project, east of the Delta, outstandingly illustrates Egypt's success in invading the desert and challenging the problem of food security. The Arab Contractors/Osman Ahmed Osman and Company brought about the triumphant completion of the project. On January 29, 1982, the construction infrastructure and the cultivation of 56,500 acres were accomplished.

- 23,000 acres were reclaimed in the El-Salhia desert;
- 33,000 acres were reclaimed in the Youth Province.

The most modern scientific and technological processes in the world were used to implement the project after adapting them in a manner congruent with Egypt's conditions.

The project was implemented after considerable studies incorporating 50 acres of experimental farms that were created in 1979. This was increased to 600 acres in 1980 and then 2,000 acres in 1981. The total project was executed in a record time of seven months.

Water for the project is drawn from El-Ismailia Canal with 460,000 cubic meters for the El-Salhia and 560,000 cubic meters for the Youth Province per day.

The center pivot irrigation system and dripping irrigation as a basic irrigation system in the project were selected as well as the use of full agricultural mechanization. Beginning with the preparation of the landm planting seeds up to the harvest of crops was adopted.

The center pivot irrigation system covers a circular area ranging between 130 and 150 acres. Dripping irrigation covers the areas between the cultivated circles. This process helps the cultivation of the desert according to its topographic nature—which saves leveling costs and avoids the loss of soil—and its agricultural properties. In

addition it saves about 35 percent of the water used in conventional irrigation systems.

The dripping irrigation system has been selected to irrigate fruit trees and certain vegetables. It saves and controls, in addition to the previously mentioned advantages, about 50 percent of the water needed for irrigation as well as 90 percent of the labor.

With the Salhia Project, the setting up of activities and industries that can increase agricultural and animal production from one acre four-fold has started. Fifty thousand acres will yield food stuffs equalling the yield of about 200,000 acres cultivated by older methods.

The Salhia Project aims not only at increasing the country's agricultural land but also its livestock wealth and poultry production as well as other food security projects.

Livestock wealth projects aim at providing the country with large quantities of meat and milk and generating new breeds of high quality cattle and horses. To achieve this:

- Embryos of the American Baranges breed have been implanted in hybrid cows, (starting in October, 1981).
- Artificial insemination of good hereditary production properties has been accomplished.
- Milk-producing stations with a capacity of 1,200 cows yielding 5 million litres of milk annually were created as well as a breeding station with a capacity of 1,500 cattle and a stall-feeding calves station with a capacity of 40,000 head of cattle per year, to be increased to 80,000 yielding 40,000 tons of meat per year.

Egypt is on the road to implementing more of the Salhia Project to meet the basic food needs of its people. ■

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negotiation, conciliation or binding arbitration.

• Creating a mechanism by which investment performance is periodically reviewed by both governments for the purpose of improving business practices and alleviating possible obstacles or constraints.

2. The ratification of the bilateral agreement for the avoidance of double taxation, which reduces the tax burden on investors as an additional incentive for investment.

3. The launching of a private sector feasibility study program in cooperation with the United States Agency for International Development, providing for reimbursing the cost of reconnaissance visits or feasibility studies carried out by potential U.S. investors.

At present, Mr. Roushdy said, we are observing a remarkable change in the pattern of the U.S. approach to investment in Egypt. This approach is characterized by the following:

• A new interest was created in various fields, such as integrated agrobusiness, land reclamation, production of construction materials, chemicals, pharmaceuticals, auto feeding components, etc.

• A growing number of small and medium-sized companies are willing to go into joint ventures with Egyptian partners.

• Various American institutions directly concerned with U.S. investment overseas are getting more involved in supporting such trends. Among those institutions are the U.S. Chamber of Commerce, the U.S. Commerce Department, the Overseas Private Investment Corporation, the Agency for International Development, and the U.S. Trade Representative.

• In addition, a number of other activities are contributing to the overall package of encouraging investment in Egypt, such as the activities of the Private Investment Encouragement Fund (PIE Fund). It extends financial support for establishing investment projects using American technology. The AID support program is financing the establishment of an investment information center fully equipped with updated information on investment opportunities in Egypt.

• Recently numerous promotional activities were launched, including the first Telemission program followed by

a delegation of U.S. private investors organized by OPIC.

Tourism

Egypt is an "open museum" where masterpieces of ancient history are on constant display in their natural environment.

It may not be possible to pinpoint the exact date on which Egypt emerged as the world's first constituted nation. There is, however, evidence of a neolithic culture around 6000 B.C. The first reasonably accurate date is the starting date of the Egyptian calendar —4241 B.C. It is used to this day to calculate the Coptic year.

Since the return of the Sinai Peninsula to Egypt, new areas of interest have been added to the traditional sites in Cairo, Luxor, Aswan and Alexandria. The Red Sea coast, including that of Sinai, offers year-round sun bathing and a wide variety of water and underwater sports along 600 miles of beautiful sandy beaches set against impressive mountain ranges.

The Sinai Peninsula

One of Egypt's best tourist sites, the peninsula is almost surrounded by water. The Mediterranean Sea lies to the North with a coastline of 150 miles. The Suez Canal and the Gulf of Suez border it with a 250-mile coast in the West and Southwest. On the East and Southeast the peninsula stretches along the Gulf of Aqaba for another 100 miles.

Sinai is a land of fascinating history, holy places and uniqe beauty. Its history and culture stretch as far back as the days of the Pharaohs. According to ancient Egyptian mythology, the goddess Isis crossed Sinai in the course of her wandering in search of Osiris. It was also across Sinai that the Holy Family traveled to Egypt.

At present Sinai is regarded as an international center. It comprises various kinds of tourist attractions—historical, religious and athletic. One finds Islamic relics in the Sinai at Taurus. Christian antiquities in Sinai date back to Emperor Justinian in the sixth century A.D. Visible, too, is the Great War Road used by the ancient Egyptians and by Joseph and Mary when they fled to Egypt with baby Jesus.

Water sports, such as diving, wind surfing, waterskiing and sailing, became one of the main features of the region. Beautiful hotels and tourist villages are managed by the Egyptian Sinai Hotels and Diving Clubs Company along the Aqaba Gulf of the Red Sea, mainly in Sharm El-Eheikh, Dahab and Nuweiba. Four diving clubs are fully equipped to serve professionals and vacationers. All this is in an environment of fascinating coral reefs, ever-impressive red mountains, modern facilities and an average temperature of 64° F in wintertime. Sinai Egypt, "where the sun winters," is a paradise both above and below sea level.

The number of American nationals visiting Egypt is on the rise. In 1982 there were 175,000 American visitors.

By the end of 1982, several large new hotels opened, most of them operated by American chains. The country's hotel capacity, which now stands at 27,000 rooms, is expected to reach 40,000 by 1985.

Evidence of increased tourist traffic is further seen in the dramatic increase of Nile boats making the increasingly popular Nile cruise from 9 in 1975 to 50 boats in 1982.

The Egyptian Private Sector

The Egyptian private sector is currently sharing the responsibility with

The Cataract Aswan Hotel is one of the Egyptian Hotels Company's many luxury establishments.

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the government for developing the Egyptian economy. Large companies were formed to serve the different requirements of the economic sectors. The Open Door Policy supported by law 43/77 of 1978 was a positive step that created the right environment needed for private enterprise.

One of the most important problems in Egypt is the shortage of housing. As part of its policy to solve this problem the government planned the creation of new cities in the desert.

One of the leading private sector firms that is helping the government in implementing this policy is Sabbour Associates. It is a living example of a successful private enterprise. The projects undertaken by it represent various fields of development that form part of the new Egypt. Examples of these projects in which the firm participated in the planning, design, construction management and infrastructure are the following:

• Sadat and the Sixth of October cities. It is expected that these cities would accommodate over 2 million inhabitants who voluntarily move into them from overcrowded regions to seek a better life, more suitable work and higher income. Sadat City in particular, in view of its size (1.5 million people), has no parallel (as a new city) in any other place in the world.

• Another national project that will be carried out in stages is the Cairo Metro Project. The estimated cost for stage one only of the tunnel is $400 million.

• The Mokattam Plateau development project will provide 8,400 pieces of land for building housing to accommodate 250,000 inhabitants, in addition to providing sites for services and public buildings. The infrastructure project includes roads, water, sewerage, electricity and telephones as well as 10 miles of main roads.

• Semiramis Intercontinental Hotel (840 rooms) is one of the largest new five-star hotels to be built in Egypt, on about 12,000 square yards overlooking the Nile. Total cost is about $100 million. It is expected to be inaugurated in early 1984.

• AIN Shams University Hospital (850 beds), an educational hospital built on approximately two acres of land, will cost about $110 million.

• Suez Port development entails modifications to increase the capacity of the port, as well as a comprehensive plan for extension needs to the year 2000. The project will cost approximately $100 million.

• The largest commercial mall in Cairo, TIBA 2000, will also include several office blocks, recreational buildings and residential apartments. Total cost is estimated to be $125 million.

• Rehabilitation and expansion of electrical supply networks in Cairo, Alexandria and 11 other cities. This project deals with the problem of inadequate overloaded electrical supply networks that has been caused by extremely rapid urban development.

• Rural electrification and expansion. This project aims at gradual introduction of electricity to Egyptian villages. Annual cost is about $130 million.

• Industrial projects. Expansion is being undertaken in the Ductile Cast Iron Pipe Company, and the rolling mills of the iron and steel complex. Total cost is estimated at $100 million.

• Economic housing projects. The firm is entrusted with the task of building a set of economic projects involving more than 10,000 housing units. Three of these projects are being carried out in Cairo, involving 5,000 units.

• Food security projects. The first fish farm in Egypt is being developed to serve as a pilot project for others to come. The farm will be built on 1,200 acres in Sharkiya Governorate. The production will help in providing needed food requirements.

• Environmental protection projects. A study for estimating the extent of pollution in Suez and its bearing on the planned reconstruction of the city was carried out. The study gave the necessary resolution alternatives and precautions to be considered for the city expansion.

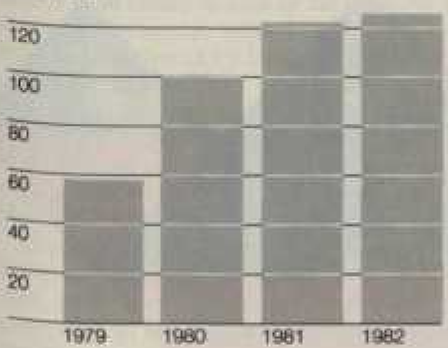
• Transportation project. A study was carried out to plan road improvements for greater Cairo as well as entrances to the city and the beltway based on projected year 2000 traffic.

Judging on the basis of the importance and value of the above projects, Sabbour Associates is a living example of a successful private enterprise in Egypt. Laws and provisions of the Open Door Policy created the right legal environment that helped promote and diversify its activities. ■

SABBOUR
ASSOCIATES

Sabbour Associates

Construction Cost
Million L.E.



Sabbour Associates, established in 1957, has played an expanding and principal role in providing engineering consulting services in Egypt and numerous Arab countries.

Sabbour Associates covers a full range of capabilities in economic planning, architectural engineering fields and construction management.

Sabbour Associates provides these services through its resources of more than 550 personnel in its head office in Cairo and other branches.

Selected prestigious projects:

Planning:
- Sadat City: A new desert city with a targeted population of 1.5 million inhabitants.
- Sixth of October City: A new desert city with a targeted population of 550,000 inhabitants.
- The Pyramids and Sphinx Plateau.

Public Buildings:
- Semiramis Intercontinental Hotel (Cairo)—840 rooms
- Ain-Shams Surgical Teaching Hospital—850 beds
- The Ministry of Reconstruction, the Ministry of Planning, the Ministry of Economics and the Ministry of Land Reclamation office buildings.

Electricity:
- Rural electrification of Egypt
- Rehabilitation and expansion of the electrical net systems for Cairo, Alexandria and eleven other major cities.

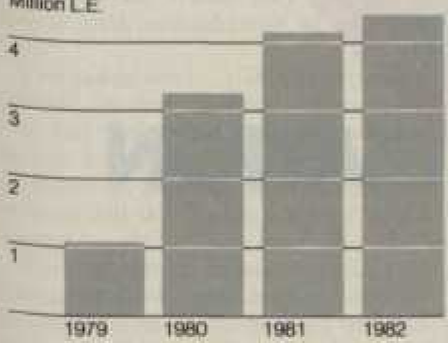
Ports:
- The expansion of the port of Suez

Industry:
- Ductile pipe factory in Cairo.
- Rehabilitation of the rolling mills for the Iron & Steel Complex

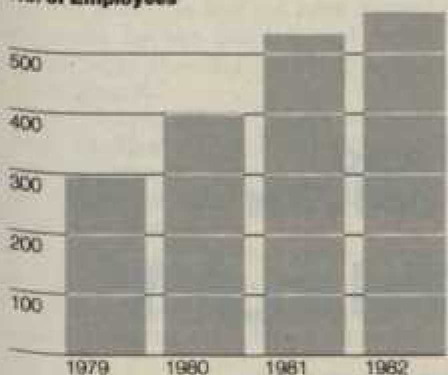
Infrastructure:
- Cairo Underground Metro project.

Food Security:
- Several aquaculture projects in the Nile delta.

Annual Fees
Million L.E.



No. of Employees



The above figures exclude the joint venture companies

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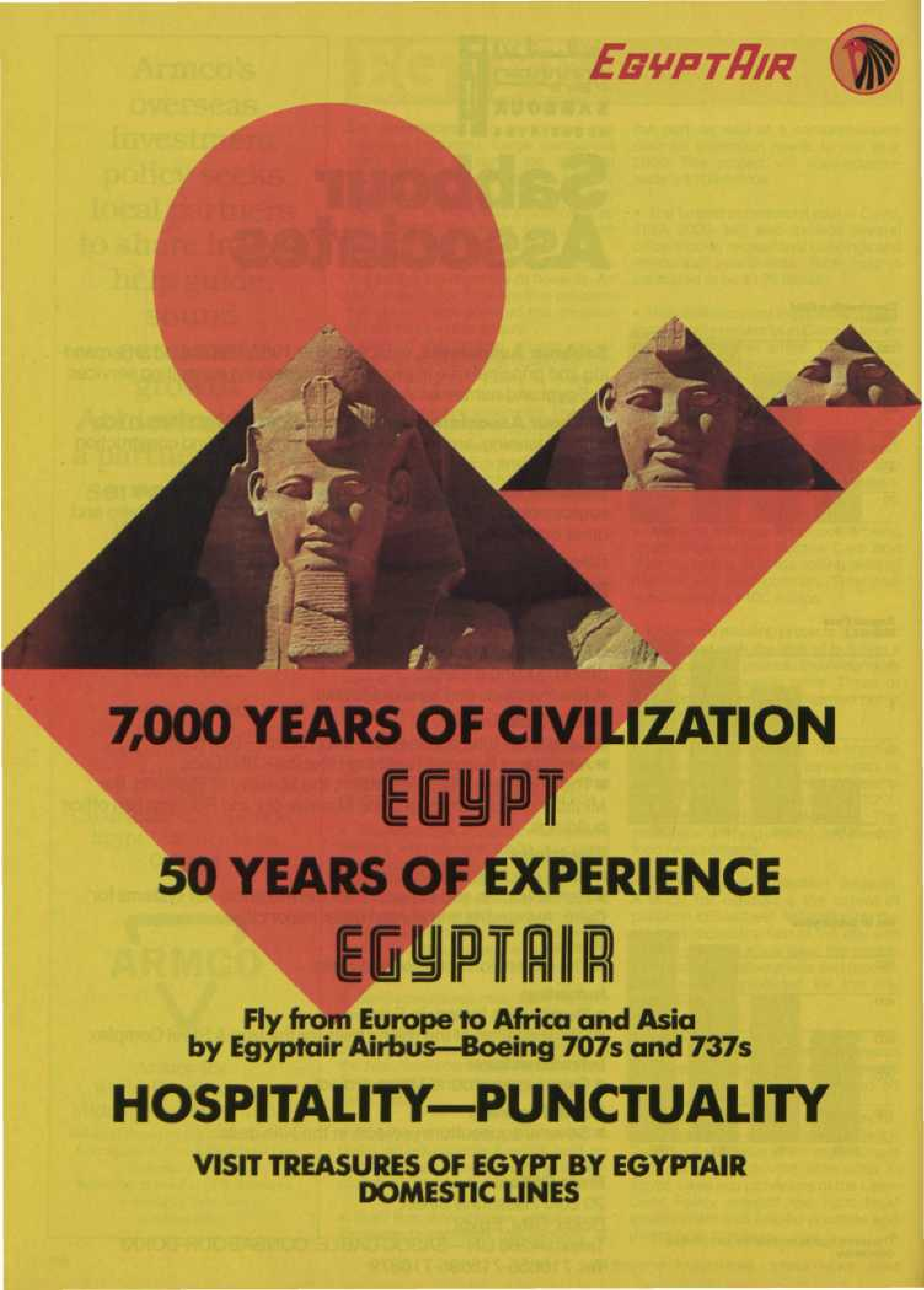
Tel: 716656-718595-716879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DOMESTIC LINES

Tax Bill's Battle In Court

MAJOR PROVISIONS of the tax law enacted by Congress amid heated controversy last summer are now in effect, but a band of House members is pressing a claim that the statute is unconstitutional.

As it now stands, the law calls for nearly $100 billion in new or accelerated revenue payments, with most of that burden to be borne by business.

The legislation was originally hammered out in the Senate Finance Committee under the leadership of that panel's chairman, Robert Dole (R-Kan.). It was approved by the full Senate and then by the House of Representatives.

Dissident House members argued, however, that the procedure was in conflict with the Constitution's requirement that all tax legislation originate in the House.

A provision of Article I of the Constitution says:

"All bills for raising revenue shall originate in the House of Representatives; but the Senate may propose or concur with amendments as on other bills."

Congressional parliamentarians pointed out that the constitutional niceties had been observed, because the Senate had proposed the massive tax increases as an amendment to a minor revenue bill the House had sent to the Senate in 1981.

That argument failed to satisfy 17 representatives, who argued that the sweeping revenue bill had not originated in the House but was written and initially passed in the Senate.

They took their argument to a federal district court, but they lost the first round. Judge Joyce Hens Green held that the plaintiffs had not been injured personally by the tax law and hence lacked legal standing to bring a suit challenging it.

Rep. Henson Moore (R-La.), a leader of the dissident group, immediately announced plans for appeal and said the case would be taken to the Supreme Court if necessary.

"We want to show that every phrase of the Constitution means something, and that it means it at all times, not just when it's convenient," Moore commented.

Constitutional law experts say that the House group faces an uphill fight because the doctrine of separation of powers makes the federal courts reluctant to interfere in the internal workings of another branch. □

The Spreading Computer Revolution

Company-to-company hookups in the food industry herald greater efficiency for business in general.

By Bob Gatty

The Ralphs Grocery chain uses computers to read and add prices, and it is beginning to use them to control the flow of products from warehouse to stores and from suppliers to warehouse.

PHOTOS: RALPHS GROCERY COMPANY

THE HORSE-DRAWN CARRIAGES pulled up outside the general store, sending clouds of dust into the air. It was 1873, in Los Angeles, a bustling western town of 3,000 people.

Los Angeles has grown a little since then. So has the retailer.

Ralphs Grocery Company, the oldest grocery business in the West, now operates 120 supermarkets in Southern California. It is a leader in the technological revolution now under way in the food retailing industry.

Today products marked with a Universal Product Code are moved across a small glass at the checkout counter, and the prices are automatically added on a computerized terminal.

According to Ralphs Chairman and Chief Executive Officer Byron Allumbaugh, the information accumulated by those "scanners" is used for countless purposes. "Now we're working on an automatic system that will reorder products for our stores from our warehouse based on our scanner-generated data," he says.

Scanners are only the most visible sign of change.

Computers at Ralphs are tied in with computers at some of the company's major suppliers. Purchase orders are transmitted in a language that each computer understands, based on what is known as the Uniform Communication Standard. Invoices and other intercompany documents are sent the same way. Just as Ralphs is developing an automatic reordering system for the warehouse based on scanner-generated data, UCS allows the firm to stock that warehouse through computerized orders sent by the company to its suppliers.

Ralphs' system is part of a new computer-to-computer communications system developed for food manufacturers, brokers, wholesalers and retailers. And according to Arthur D. Little, Inc., the consulting firm that developed the UCS design concept, potential annual savings for the food industry range between $196 million and $324 million.

Not just the food industry but nearly every sector of the economy may someday be affected as computers are hooked together to communicate between companies.

Richard C. Norris, a senior consultant in operations research at Arthur D. Little, points out that most companies today have sophisticated, versatile computer systems but still rely on slow, error-prone and costly paper-based systems for such intercompany transactions as ordering and invoicing.

However, he says, that is changing thanks to electronic data interchange, the system of sending such information via computer. "Once appropriate standards are developed," Norris says, "the same structure can be used for such consumer products as health and beauty aids or hardware, for general merchandise and for such industrial products as chemicals and steel."

The key is developing a standard so that the receiving computer understands what the sending computer is talking about. UCS is such a standard for the food industry.

"All we're doing is reformatting data so that one company can send them to another in a way they can be used," says John B. Ferris, senior vice president for finance at Minneapolis' Super Value Stores, a major food wholesaler.

"The time saving is the greatest benefit," he observes. "You get a purchase order, for example, transmitted very quickly, and it can be acted on without being rehandled."

Thus the retailer can be given immediate information about the availability of products. Because of the fast action made possible by computer transmission, reserve inventory—safety stock,

CPT explains what happens after you buy a word processor.

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PHOTOS: KEN TOUCHTON

In hospitals, patient records that once filled bulky files are now maintained by computer and can be reviewed by nurses at their stations. Such computer networks are increasingly common within companies and institutions.

it's called in the food industry—can be reduced.

For the supermarket industry, the UCS program had its beginnings in 1976, when six major trade associations formed a joint industry committee led by Arthur Woelfle, president of Kraft, Inc., and Leonard Lieberman, president of Super Markets General.

The first step was the feasibility study by Arthur D. Little. The second was the development of message and communication standards, launched in August, 1980, which defined message formats for purchase orders, invoices and other related transactions.

Then the program was implemented on a test basis using 13 pilot companies, including Super Value and Ralphs. Companies were paired to begin computer-to-computer transmissions. They now have been transmitting purchase orders and invoices successfully for many months.

A second group of 10 firms has completed a start-up training program, and the firms began electronic interchange in January.

In its report Little recommended that the industry use the message format system developed by the Transportation Data Coordinating Committee in Washington, instead of developing a system specifically for the food industry.

TDCC, a nonprofit industry association sponsored by major shippers and carriers to develop common standards for the transportation industry, now provides the software for the UCS system and manages the training and pilot programs.

Edward A. Guilbert, TDCC president, has been working since 1969 to find a way to help businesses communicate with each other via computer.

"It seemed ridiculous to receive a piece of paper from you with information on it that came from your computer," says Guilbert. "When I get it, I

The Accelerating Boom in Local Area Networks

Consider the problem of Sam Jones, owner of an auto parts store.

He has three microcomputers to expedite billing and record keeping, but he still runs up and down the stairs between the office and the store to check on files and to give the bookkeeper updated information.

But if Jones were able to hook his computers together so that they could talk to each other, sales data developed downstairs could immediately be keyed into the system and received by the bookkeepers in the office above.

The answer to Jones' problem is the local area network, which a recent report published by the International Data Corporation says is one of the fastest-growing segments of the computer industry.

Local area networks allow computerized equipment, including personal computers, word processors, centralized data storage devices and electronic printers, to transfer information within a limited area—as on the premises of Jones' store or between a company's office and its factory.

Besides the electronic devices linked together, the network consists of the wire or cable used to carry data and special circuitry that allows the data to be transmitted and received.

IDC estimates that at the end of 1981 there were 8,160 local area networks installed worldwide and that there will be 37,000 by 1986.

According to IDC, there was only a handful of vendors of local area networks as of a year ago. But the firm says there are about 45 now, and the number is growing rapidly.

Vendors fall into one of these categories:

- **The computer systems firm** that provides local area network technology designed to connect the equipment it sells.
- **The component supplier** who provides the pieces needed to allow the user to construct his own local area network.
- **The local area network system vendor** who provides the means to allow interconnection of equipment from several vendors.

Key to the growth of this industry, IDC points out, is the establishment of international local area network standards, a move recently supported by 19 major equipment manufacturers.

Another report, this one issued by International Resource Development, of Norwalk, Conn., points out that only about 15 percent of today's users of personal computers are equipping them with modems or other devices that permit computer-to-computer communication. However, the report predicts that soon 100 percent will be and that there will be "dazzling" growth in markets for such interface devices.


ATTENDANT
TRUNK GROUP STATUS
BUSY
TIME
MIN CON MAJ
ALARM
LAMP TEST
ALARM RESET
BELL OFF
IDENT
NIGHT 1
NIGHT 2
DO NOT DSTB
CALL BACK
HOLD 1
HOLD 2
HOLD 3
FLASH
SERIAL CALL
CONF
PAGE
LDN 1
LDN 2
LDN 3

Keeping in Touch With Franchisees, via Computer

Leo Lauzen: providing data.

A computer network links 350 franchised accountants with the main office of Comprehensive Accounting Corporation in Aurora, Ill. This permits franchisees to provide their 23,000 clients with detailed business data every month.

The system, put in place by the firm's president, Leo G. Lauzen, gives each client a monthly balance sheet and operating information. At the same time, franchisees are given comparative information so that they know how they are doing and can make whatever changes in their operations they need to make to avoid trouble and grow.

Lauzen is adapting that system to help other franchise companies assist their franchisees.

"The program will assemble data like operating statements and balance sheets in the format of the particular franchisor," he says. "This will make it possible to quickly identify franchisees who need help and in what area."

Comprehensive Accounting is testing the program this month before making it available nationwide.

have to sit down and code it and then key it into my computer before I can generate an invoice."

That was the germ behind the development of TDCC, which has developed standards that allow computer-to-computer communication in the transportation industry—including rail, air freight, motor freight and ocean carriers. Now waybills and other key transaction documents are sent electronically, Guilbert says.

THE KEY to such intercompany communication is the development of a single set of standards—terminology that the computers involved understand. "It's possible with any company that says, 'I will agree to the terms and definitions and conditions in a set of standards,'" says Guilbert.

It doesn't matter much what kinds of hardware are used, according to Guilbert. "In the food industry, we started with mainframes. We're now down to smaller computers, and we're going down to minis and micros when that's needed," he says.

Besides developing data transmission standards for the transportation industry and working with the food industry on UCS, Guilbert's group has developed Warehouse Information Network Standards that allow computer-to-computer communication between manufacturer and warehouse.

According to Gene A. Nelson, director of management information systems for Dry Storage Corporation, of Des Plaines, Ill., pilot pairings of companies—manufacturers and warehouse companies—will be completed by April and two tested WINS messages, the warehouse shipping order and warehouse shipping advice, will be released for general use.

The WINS standards were designed to be compatible with UCS. They will make it possible to transmit messages and documents faster, more accurately and at less cost, Nelson says.

In many cases, warehouses now contain rooms full of printer terminals of the various manufacturers on which orders are received. "The gross inefficiency is obvious when you realize that the average use of each terminal is less than 20 minutes per day," Nelson notes. But since the manufacturers all use their own order forms, they are unable to share terminals with other manufacturers.

That causes problems for the warehouse, Nelson points out. "Separate programs must be written and processed to print each manufacturer's unique order forms and to interpret the transmitted data and reformat them for entry into the public warehouse's order entry/inventory system, and that's costly," he explains.

Now that UCS has linked retailers, brokers and manufacturers and the WINS standards have been established for manufacturers and warehouses, Nelson says, the warehouse industry wants to establish standards for communication between warehouses and carriers.

"Transmission of bills of lading from the warehouses to the carriers and freight bills from the carriers to the warehouses and manufacturers will complete the cycle," he says. "Envision a retailer or broker sending purchase orders for products of several different manufacturers directly from their computer to a public warehouse computer."

A warehouse could then consolidate all orders in one truckload to be sent directly to the retailer. That, according to Nelson, would mean a very tangible freight savings and would reduce the entire order process from perhaps six days to two or three.

Wholesalers and distributors also stand to gain much over the next decade from computer-to-computer communication, according to a study completed recently by Arthur Andersen & Company, the management consulting and accounting firm.

The study predicts that 83 percent of all such firms, which buy goods and then resell them, will use on-line order entry systems by 1990. "Terminals are expected to be located at sales branches, warehouses and on customers' premises to allow customers to input orders themselves."

BUT, says James W. Norris, industry director-wholesale distribution at Arthur Andersen, "suppliers and wholesalers have to get together to define standards in order for their systems to talk to each other." The potential exists, he says, for practically every retailer, manufacturer and wholesaler-distributor to be linked by computer—if such standards can be established.

Vico E. Henriques, president of the Computer and Business Equipment Manufacturers Association, believes the future holds such linkage. He points out that in many industries companies have established computer systems—networks—that provide for communication among various segments of each company. He believes the many kinds of computer networks that now exist "will begin to grow toward each other." And with the development of systems like UCS, agreement on nomenclature will be reached, making it possible for more and more firms along the distribution chain to be linked.

"We say we're in a computer revolution," says Guilbert. "And we are. But we've only begun to see what the computer world can do with us, to us and for us. It all depends on whether we are intelligent enough to maximize its use." □

Staying the Course

Executive turnover—a major problem in other administrations—is comparatively minor in this one.

By Michael Thoryn

Treasury Undersecretary Norman Ture (top) and Transportation Secretary Drew Lewis are among the few top Reagan appointees to return to private life.

HIGH TURNOVER among top political appointees has long hampered effective management of government agencies. "It seemed that Eisenhower administration officials came for just one and a half social seasons," says John Macy, executive director of the Civil Service Commission during the Eisenhower years.

As the Reagan administration passes its halfway point, signs are that the President will avoid much of the continuity-numbing turnover of his recent predecessors. Reagan appointees, particularly those from business, are sticking with the team. "These appointees [from business] have a sense of commitment," says Mary Jo Jacobi, director of the office of business liaison at the Commerce Department. "And with the economy in such bad shape, there is more to be done."

Adds Gerald R. Riso, deputy commissioner of the Immigration and Naturalization Service: "The reason appointees aren't leaving in droves is a sense of duty." Riso, who is in charge of his agency's day-to-day operations, notes that government service is increasingly seen in the business community "as a professional challenge."

Richard E. Kinzer, deputy director of presidential personnel at the White House, says the administration has succeeded in recruiting skilled people sympathetic to a market economy. But no matter how skilled the appointee, the historical evidence is that top officeholders tend to leave quickly, often before accomplishments are in evidence. Typically, the tenure of cabinet officers, their chief deputies and heads of agencies is two to two and a half years. That's not enough time to master a complex job, Macy says. Learning the nuances of policy is "much more complex than I ever thought it would be," says Jacobi, who came to the Commerce Department from an executive position in industry.

The Washington rumor mill churns continuously with talk of who is leaving top administration jobs, but so far most of the rumors of departures from the cabinet have proved to be unfounded. Only four of 13 cabinet secretaries—Alexander Haig of State, James Edwards of Energy, Drew Lewis of Transportation and Richard Schweiker of Health and Human Services—have resigned so far.

One reason Lewis, a veteran business executive, chose to take an offer to run Warner Amex Cable Communications was the low turnover in top Reagan administration jobs; positions he might have wanted to shift to weren't coming open.

Cabinet members' salaries have just been raised to $80,000, but for them and other officials government service often requires financial sacrifice. "At the cabinet level, the salary isn't a meaningful deterrent—the luster you gain will increase your value," says Frederic V. Malek, a Marriott Corporation vice president who served in the Nixon White House. But below cabinet level, at only slightly lower salaries, the successful business person can wind up doing a kind of "financial penance."

That's the view of Norman B. Ture, a supply-side economist who served for 18 months as undersecretary for tax and economic affairs at the Treasury Department. "I planned to stay for a year—the pay cut was eroding my savings so I couldn't stay any longer," Ture says. He has restarted his own economic consulting firm.

OF COURSE, not everyone thinks the $65,000 or so a year that such officials get is bad pay, particularly if no cost of moving to Washington is involved. Charles F. "Chuck" Bingman, a high-ranking career official at the De-

partment of Transportation and other agencies, recalls that the Carter administration drew many appointees at DOT from Washington-based advocacy groups. "Government pay was the best many of them had ever had," he observes. Still, turnover during the Carter years was roughly at the historic average.

Turnover clearly delays policymaking. A recent General Accounting Office study of DOT policy development and implementation shows a typical pattern: Since the department was established in 1967, there have been seven secretaries and nine assistant secretaries for policy. Secretary John Volpe served the longest, four years, but that pulls the overall average for secretaries up to only 28 months.

Immigration's Gerald Riso: "A sense of duty" helps keep turnover low.

These rapid changes at the top have caused lapses in the continuity of policymaking and planning. An assistant secretary under Secretary William T. Coleman (Coleman held office from March, 1975, to January, 1977) says a 1976 report, *National Transportation Trends and Choices,* "asked a lot of tough questions, but there wasn't any follow-up." Instead, the next secretary commissioned a similar study, completed about two years later. Meanwhile, transportation policy was in limbo.

JUST AS IT DOES in the private sector, a high turnover rate in government leads to emphasis on short-term results and neglect of long-term planning. One former DOT secretary told GAO he operated in a "firehouse environment of day-to-day crises and immediate concerns. Decisions had to be made on White House, congressional or industry requests, budget, legislative and regulatory proposals, and other assorted pressing issues related to department management." Another former DOT official insisted he was "nickeled and dimed to death."

With that kind of frustration, it is not surprising that the Carter administration could not fill some top slots in DOT for months before the November, 1980, election. "Why go into a lame-duck operation and get beat up in government for a year?" Bingman asks. And when Reagan defeated President Carter, Democratic officeholders gave way to an entirely new management team.

DOT has been far from alone in having turnover troubles. John M. Collins, a national defense specialist for the Library of Congress, says that of the 15 secretaries of Defense only three had previous experience in "defense concept formulation and strategy." In Collins' view, the others sorely needed on-the-job training and "few passed the primer state before they resigned." Average tenure was so short, 2.4 years, that even those Collins thinks were fully qualified "found it almost impossible to promulgate cohesive policies and programs, much less pursue them to successful conclusions," he says.

Riso, formerly a vice president at the Booz-Allen & Hamilton management consulting firm, identifies two main categories of business people in government service. One is "the older guy who has put his kids through college" and may well consider retirement after his government years.

THE SECOND CATEGORY is composed of executives in their 30s and 40s who see government service as an experience worth having for their business careers. But "business just doesn't wait for you," Marriott Corporation's Malek points out. As a result, these younger recruits are more likely than their seniors to leave after two years or so. Lawyers have an easier time returning to former employers, so they tend to stay somewhat longer.

Working for the government is a big adjustment for executives used to making quick decisions. Riso, in his second tour of government duty, says, "It's hard to get used to the number of bases I need to touch—the number of hands on each decision." Everything takes more time than you think it should, he adds.

To achieve any kind of success, government veteran Macy says, the executive must pursue a strictly limited number of goals, perhaps as few as two or three.

For all the frustration, Riso believes he is doing important work. "Business people shouldn't just gripe about government," he says. "They should be willing to come in and do something about it." □

Should the Defense Buildup Be Curtailed?

Arguments for curtailment: The administration is rushing into a five-year, $1.6 trillion defense spending plan without a clear-cut perspective on the American military role throughout the world in the closing years of this century and the early years of the next. Such expenditures will contribute to record federal deficits that could rekindle inflation and undermine the recovery, threatening the economy's ability to sustain the proposed military outlays over the long run. The projected outlays could be cut back, without serious impact on national defense, while the need for new weapons systems is evaluated in the light of anticipated world conditions over the coming decades. The Pentagon would not be able, in any event, to spend the money as fast as it became available. Spreading the buildup over a longer period would thus be a sound move.

Arguments against curtailment: Restoration of U.S. military defenses is the most crucial responsibility of the federal government at a time when the Soviet Union is building up its own military capability and is engaged in direct or indirect aggression in trouble areas throughout the world. As President Reagan says, an adequate defense is a matter of national survival, and not simply another bargaining chip in fiscal policy debates. Arguing that projected defense spending levels threaten a resurgence of inflation and higher interest rates ignores the more fundamental question of the consequences of defenses too weak to protect the nation. In addition, the actual increase in military spending by the administration is relatively modest by past standards: Military spending represented half of all federal spending in 1960 and now represents 30 percent.

VERDICT: New Withholding Law Should Be Repealed

A tax increase bill passed by Congress last August requires financial institutions and corporations to withhold federal taxes at a 10 percent rate from interest and dividend payments, beginning next July 1. A move to repeal that provision is under way on Capitol Hill, and NATION'S BUSINESS readers responding to a "Where I Stand" question in December support that effort almost unanimously. The latest tally shows readers favoring repeal by a 22 to 1 margin. Critics of the withholding plan argue it will generate massive amounts of paper work and will capture few tax dollars that would not have been paid otherwise.

This Is Where I Stand

Should the Defense Buildup Be Curtailed?

YES ☐ **NO** ☐

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Selling Your Ideas At Business Meetings

By Marshall R. Hatfield

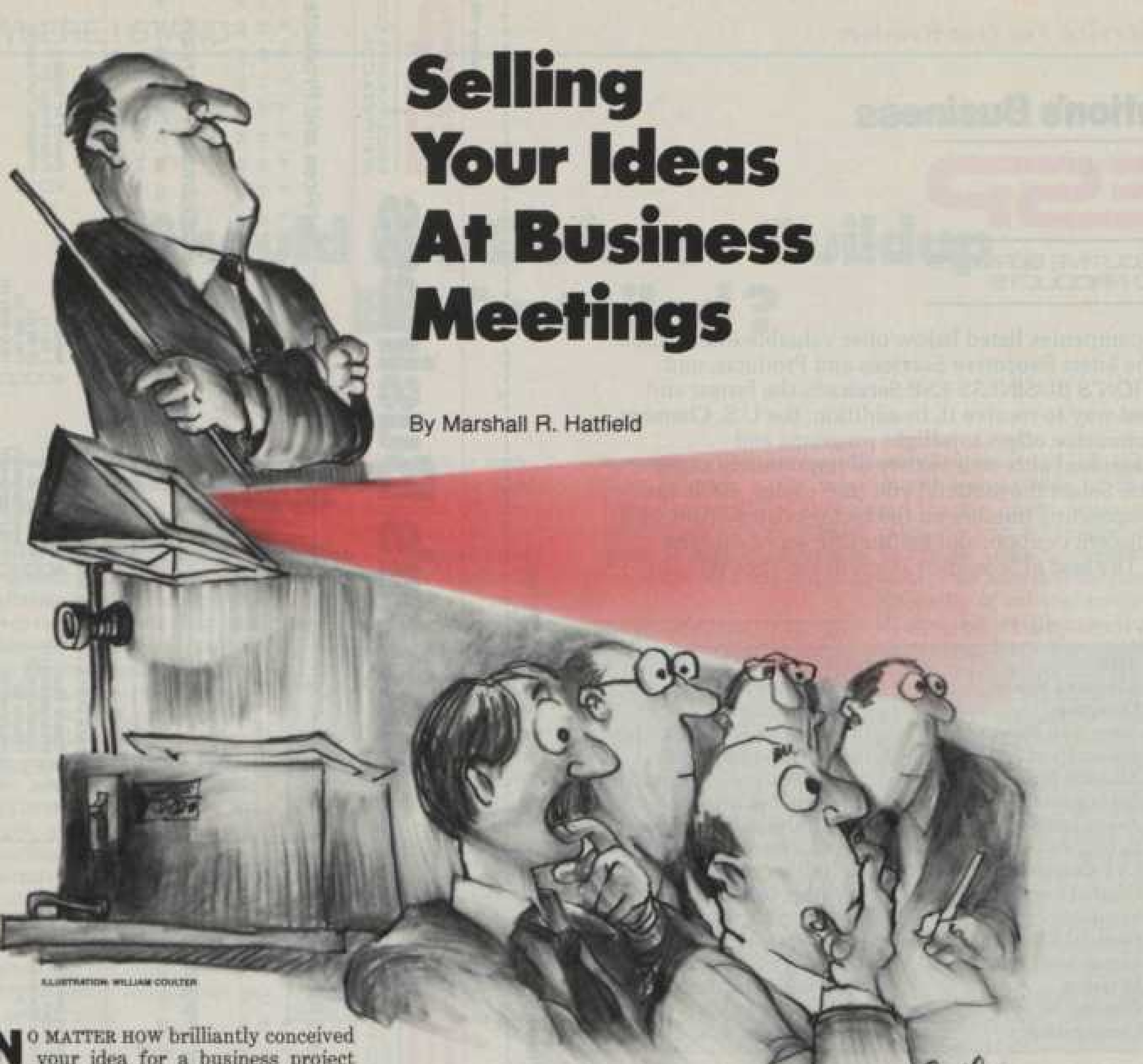

ILLUSTRATION: WILLIAM COULTER

NO MATTER HOW brilliantly conceived your idea for a business project may be, it is likely to go astray if you present it poorly at meetings of your subordinates, peers or superiors. Despite the vital importance of meetings, a surprising number of executives are woefully deficient at getting their points across.

In studies of meetings' dynamics the key word turned out to be "visual." Ours is a visual world. From birth we retain most strongly what we see: television, newspapers, magazines, books, movies, blackboards, projections and even road signs. We forget or misinterpret 90 percent of what we hear.

This was borne out by a study at the Wharton School of the University of Pennsylvania. The aim was to measure the effect of visual aids, specifically the overhead projector, in business meetings.

After reading background material about a fictitious company, Wharton students met in test and control groups. Each group decided whether the company should enter a particular market with a new product.

Either white boards or overhead projection transparencies were used to illustrate specific marketing points.

The study showed that the use of overhead projection greatly reduces boredom and the length of meetings (meeting time fell by 28 percent).

Additional study findings include:

- Speakers using overhead projection to present their ideas are considered by the audience to be better prepared, more professional, more persuasive, more credible and more interesting than speakers without such aids.
- When a presentation supported by an overhead projector promotes a particular position, an average of 67 percent of the members of the audience will agree. This compares with 50 percent agreement when no audiovisual aids are used.
- When overhead projection is used, 64 percent make a decision immediately after the presentation, rather than waiting for group discussion. Only 52 percent decide as quickly when no audiovisual aids are used.
- Overhead projection influences other characteristics of business meetings. Interaction among participants is encouraged, and group consensus is achieved more frequently.

During the Wharton study, the speaker using overhead projection in support of introducing the fictitious new product won 79 percent agreement

MARSHALL R. HATFIELD *is vice president of the audiovisual division of 3M.*

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*Burke Market Research Survey of 5,000 businesses, April, 1980

from his audience. Only 59 percent agreed with a speaker who did not use overhead projection in his presentation.

But the projector—whether it transmits transparencies, slides or movies—cannot rescue a poorly prepared, disorganized speaker. With that in mind, here are a number of basic do's and don'ts that will help you make better presentations at business meetings.

First and foremost is to be prepared. Organize what you intend to say, point by point in logical order, arranging your visuals accordingly. Write your presentation if you like, but neither read it nor memorize it word for word. To do so destroys the spontaneity a talk must have to be interesting; a written speech can close off a pertinent spur-of-the-moment idea.

SUCCESSFUL speakers at business meetings have found that making notes about each visual enables them to maintain continuity in their talks. Some even use the notes to highlight "spontaneous" comments.

Many experienced speakers type, on 3 by 5 inch file cards, the opening words or perhaps even the first paragraph of each point they will make. A half-hour's concentration on these cards just before an appearance will implant the points firmly in your mind, and the elaboration will follow easily.

Try to anticipate questions your audience may raise. You can't anticipate all of them, of course, but your listeners will know you have done your homework.

Experts generally believe that the less time a speaker devotes to a monologue, the more efficient the meeting becomes. By not doing all the talking, you encourage interaction between yourself and the other participants. And when people interact more, they understand more.

Using well-designed visuals not only encourages dialogue, it stimulates better audience participation. For example:

- To announce a topic, project a visual that features the topic and address questions to the group or an individual. But don't ask questions that can be answered by yes or no.
- To avoid digressions, restate the issues or the purpose of the meeting by displaying the specific visual that lists the issues. Don't let discussion lag.
- To cover every point, refer to the same visual. Hold each item on the agenda to its allotted time span.
- To keep the meeting alive, use bold visuals in color and change them often.
- To break up an argument, turn on the projector. This focuses attention on the facts, so you can regain control of the meeting and get the discussion back on the track.
- Always state a conclusion or summarize your results in writing on a transparency, if that is the medium you are using.

NOT EVERYONE can be as poised and polished a speaker as Ronald Reagan, but you can hold your audience. Enunciate clearly and speak loudly enough to be heard in the back row—but never shout.

Direct your remarks *to* someone, not *at* your listeners; move your gaze from one face to another so that each member of your audience will feel that you are talking directly to him or her.

Be confident but not arrogant, relaxed but not casual, and genial but not flippant. Avoid slang, jargon and such threadbare banalities as input, feedback, cost-effectiveness, state of the art and the like.

Above all, be brief. Keep in mind something Thomas Jefferson once said: "Speeches made by the hour die by the hour." □

To order reprints of this article, see page 79.

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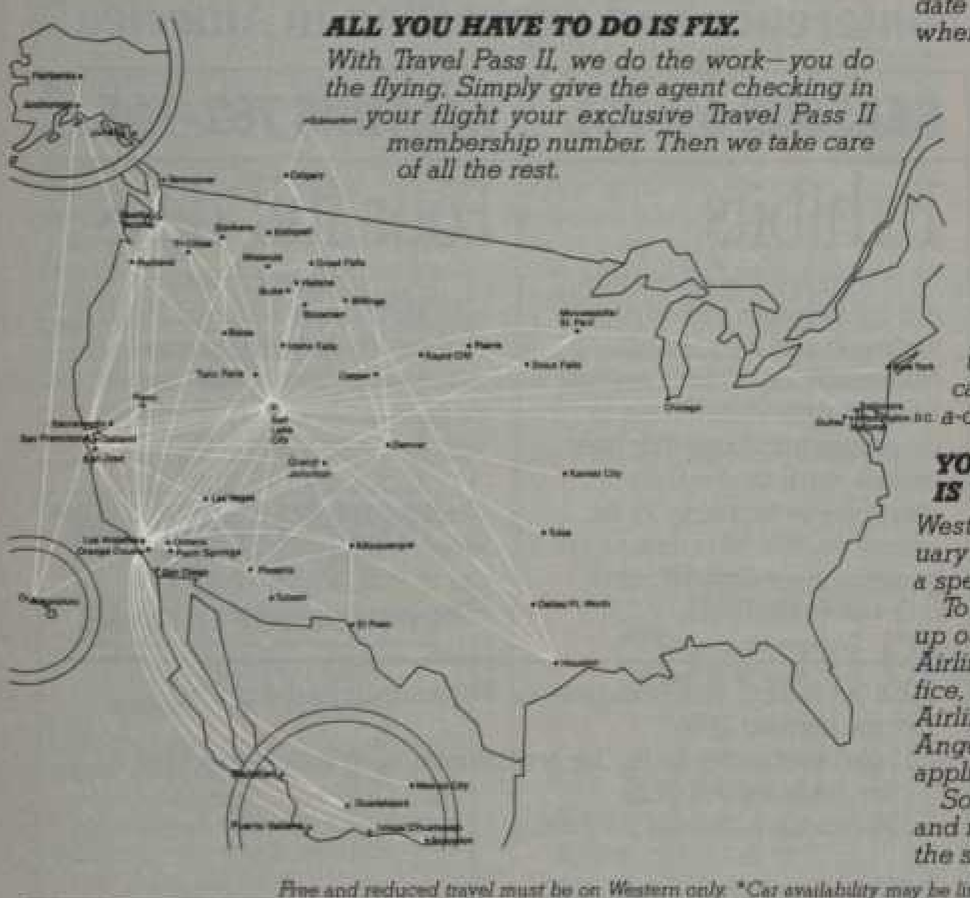

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A Tiny Federal Agency With a Big Payback

WHEN PRESIDENT REAGAN'S chief of staff, James A. Baker III, got in touch with his Princeton classmate Craig A. Nalen in 1981 and asked him to take charge of the Overseas Private Investment Corporation, Nalen had never heard of OPIC.

But take charge he did. He has been marketing the government agency's services with great success, just as he previously marketed soap, cereal, gasoline additives and land development.

OPIC—not to be confused with OPEC, the international oil cartel—has been in business 12 years, established by Congress to stimulate private U.S. investments in some 80 developing countries.

The self-sustaining agency sells insurance to investors as a hedge against political strife in the Third World, so that financial risks of war, expropriation and civil turmoil are minimized. It also provides loan guarantees, direct loans and such pre-investment services as locating workable projects.

But when Nalen moved into the chief executive officer's suite of the agency's rented space in a Washington office building 20 months ago, he found OPIC to be "one of the best-kept secrets in town." The agency was "just sitting there, underutilized," he recalls.

Nalen set up an advertising program to put OPIC on the map. He went after investments from small and medium-sized businesses and started using "Telemissions"—closed-circuit two-way television—to link foreign leaders and American business executives.

He also brought in retired business executives to serve as volunteers on a marketing advisory panel for OPIC and ambitious college students to work without pay as summer interns. And he began a system of incentive bonuses for paid employes.

"Bonus payments are embarrassingly small," says Nalen, "but many of the people here have come from the private sector and that's where they will return. They've got a private-sector mentality."

> OPIC has a staff of only 121, but it has great impact on business operations abroad. Not only that, it makes a tidy profit.

Individual awards ranging from $250 to $6,500 were given in the past year for extra effort by secretaries, salesmen and managers on OPIC's staff.

During OPIC's first year of operation, 1971, there were 135 staff members, and the agency's officials complained that there weren't enough people to get work done. Nalen is using fewer people—121—to achieve record gains.

OPIC wrote about $500 million in political risk insurance policies for U.S. investors in foreign countries during the first three quarters of the 1981 fiscal year.

In the last quarter, following Nalen's takeover, more than $950 million worth of coverage was written, producing a record $1.48 billion in insurance business for that year.

Nalen immediately set a goal of $2 billion in insurance to be written during fiscal 1981. Actually, nearly $3.1 billion was written.

GROSS REVENUES for the year reached $100 million for the first time—a jump of more than $13 million above the previous year and a 33 percent gain over what OPIC revenues had been at the start of the Reagan administration. At the same time OPIC's net profits reached a record high of $83.5 million, and the tiny federal agency made an unanticipated return of $50 million of that to the U.S. Treasury.

That amount represented close to half of the $106.2 million that Treasury had provided to fund OPIC's startup.

During a White House ceremony in which Nalen presented an oversized version of the $50 million check, President Reagan was handed the actual check to turn over to Treasury Secretary Donald Regan.

"If I put this in my pocket," cracked the President, "surer than heck Nancy will send it out to the cleaners."

The President also said that OPIC's return of the funds "demonstrates the positive effects possible when federal agencies are run in a businesslike manner."

Nalen says his business techniques, besides the incen-

PHOTO: RICK BLOOM

OPIC chief Craig Nalen's office has a photo that shows the earth as seen from the moon—a sign of OPIC's global aims.

PHOTO: THE WHITE HOUSE

Ronald Reagan and Craig Nalen flash $50 million smiles as the President enjoys a replica of a check to the Treasury from a federal agency that actually makes a profit.

tive bonuses, consist of "old corny stuff. We ask our managers to write out their goals and go for them. Tough goals. A lot of team effort and spirit are involved."

A number of Nalen's top aides, including OPIC Executive Vice President L. Ebersole Gaines, are fellow Princetonians. If there is a lot of collegiate rah-rah at the agency, it certainly has been paying off for the American public in opportunity and in profits.

Organized labor has lobbied in Congress against OPIC for several years, arguing that the more the agency encourages U.S. business investment abroad, the more jobs are lost at home.

BUT NALEN ARGUES that the investments create jobs in America while helping the nation's balance of trade. He cites a Del Monte project in Kenya that has put some 6,500 Africans to work growing and processing pineapples and coffee beans, which are sold primarily to Europe. Equipment and technology have been exported from America to launch and expand that project.

A poultry operation in Jamaica, Nalen says, put chicken-raisers to work on an island where joblessness and poverty have been dangerously high, while creating an export market for U.S. feed.

Through OPIC, Seaboard Allied Milling of Massachusetts established a flour mill in Sierra Leone, Africa, to produce bread from 20,000 metric tons of Kansas wheat a year. As a result Sierra Leone's capital, Freetown, became a sister city of Kansas City, Mo., in a cultural exchange program.

Throughout much of the Third World, struggling governments are seeking foreign investments as an effective way to acquire skills from advanced countries. Japanese industrialists, among others, have capitalized on this. Nalen, who spends at least a third of his time traveling in the developing nations, says the Japanese influence in Africa is "staggering."

In order to stimulate U.S. investments in Africa and elsewhere, Nalen is focusing OPIC's efforts on five sectors he sees as the choicest for investment: food production, food processing, medical and pharmaceutical supplies, energy exploration and construction.

"We're really pounding on those five in the advertisements we run," he says.

Nalen, 52, is skilled at marketing techniques—he has been a marketing executive at Procter & Gamble, a divisional general manager at General Mills and chief executive officer at the STP Corporation, as well as a Florida land developer.

In the private sector he saw no reason for the products he sold to lose their share of any market. He is just as gung-ho about America in the global marketplace.

"We used to have a 30 percent share of world trade," he says. "Ten years ago it was a 26 percent share. Today it's just under 15. Other countries are much more competitive."

One of OPIC's techniques in recent years has been to lead U.S. executives on industrial safaris to meet with leaders of Third World countries. Nalen grew impatient with that approach because the trips were costly and time-consuming. That's when he came up with Telemissions.

Early last year OPIC arranged a satellite hookup between Egypt and 600 potential investors in Boston, New York, Chicago, Minneapolis, San Francisco and Los Angeles. Egyptian President Hosni Mubarak and President Reagan made taped appearances on the program. Through television, Egyptian officials and business people met for two hours with the Americans.

Instead of having to travel to Egypt, the participating business officials in San Francisco, for instance, had only to gather on the 51st floor of the Bank of America building.

The discussion was moderated in New York by Walter Cronkite, whose fee was $10,000. In all, OPIC estimates that its costs ran to $250,000 for the two hours. In each of the six cities a participating financial institution—the Bank of America was one—paid OPIC $10,000 to become involved in the program. The six banks rounded up the potential investors and will eventually participate in any long-term investments in Egypt.

One project that emerged after the Telemission was the establishment of a dairy cooperative in Egypt by Land O' Lakes, Inc., of Minneapolis.

A second Telemission, late in 1982, involved a dozen island nations in the Caribbean and linked seven U.S. mainland cities and San Juan, Puerto Rico.

OPIC officials are reluctant to stage more Telemissions, though, unless the foreign nations involved help defray the costs. Uncle Walter doesn't come cheap. □

—Seth Kantor

OPIC to the Rescue

The Overseas Private Investment Corporation is under a congressional mandate to transact 30 percent of its affairs with small and medium-sized U.S. businesses. One of those businesses is headed by Frank Hernandez, 46.

Hernandez moved to Miami from Cuba in 1960, a year after Fidel Castro's takeover of the island. In 1961 Hernandez was taken prisoner in the abortive Bay of Pigs invasion of Cuba. Released in 1963, he joined the U.S. Marine Corps and served as an officer; then he attended Duke and the University of Florida. In 1972 he started Agrotech International, a small Florida poultry, swine and cattle company.

OPIC made an $800,000 loan to Agrotech in 1977 so that the company could take over and modernize a poultry business in the Dominican Republic. The business grew rapidly, but in 1979 Hurricane David smashed into the Dominican countryside, killing almost 650,000 chickens owned by Agrotech and destroying 96 of its 110 poultry houses.

Hernandez may have been down, but he was not out. OPIC, convinced he was a good investment, lent him an additional $400,000, with refinancing and an extra year of grace to pay off both loans.

Today Agrotech is the biggest poultry raiser in the Dominican Republic and has operations in Central and South America and Africa. The Florida-based business has a net worth of more than $60 million.

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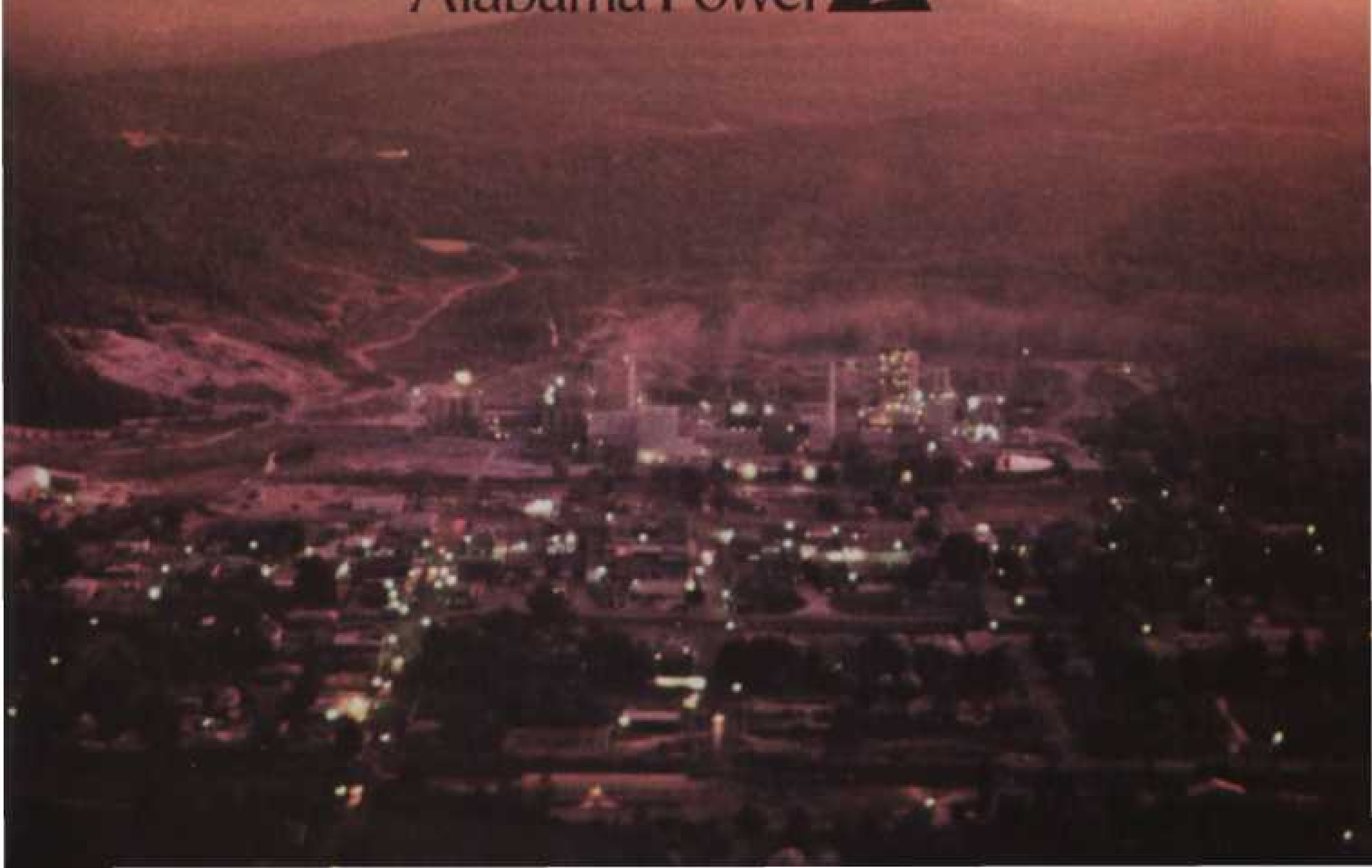


He Gives $1.50 in Effort for $1

Doing "what comes naturally" to him—providing better service than the competition—has been a key to Duke Greene's success, he says.

MARION E. "DUKE" GREENE was born to be an entrepreneur. But he might have ended up a dentist if he had not run out of money. Today Greene heads International Business Services in Washington—sole owner, chairman, president and treasurer all rolled into one.

His company provides computer services to public and private organizations around the nation. IBS has contracts with many federal agencies to manage their computer programs. With estimated sales of $15 million in 1983, IBS, which employs 326, is one of the top 100 black-owned firms in sales in the United States.

For Duke Greene, that is a long way to have come from founding a firm in the basement of his home 13 years ago. With $500 and an ailing Chevrolet to his name, Greene, a programer with the Navy and Air Force Departments, decided to give up his secure government job and strike out on his own.

Greene had been working with computers when the computer industry was still in its infancy, but he soon realized that his counterparts in the private sector were making twice as much as he was earning. The lure of being his own boss and owning his own business proved to be too tempting for him even though he was well aware that the giant computer companies had the government contracts pretty well locked up at the time.

When he began knocking on doors, Greene could see that his potential clients were questioning his ability. He didn't immediately get any programing contracts, but he was given a chance to keypunch cards for the Equal Employment Opportunity Commission and the Labor Department.

"I saw what was happening," Greene says. "So I just did what comes naturally to me—I give you $1.50 worth of effort for every dollar you give me. It's called service, and with the exception of when I was making soap, that has been my product." That first year, his company's sales were $17,000.

The odds are that Greene, who was born in 1937 in Athens, Ga., started looking around for something to sell before he could even walk. His early efforts concentrated on collecting and selling bottles and coat hangers, and by age 8 he was helping his father clean up in a nightclub in the early hours of the morning. By the time he was 14, he was responsible for the maintenance of a 30-room mansion.

In the evenings he made model airplanes, which he sold. "It broke my heart to sell them to guys who would just take them out and crash them," he says.

Today Duke Greene can afford his own full-sized airplane, but he first had to overcome a lot of adversity. He entered Morehouse College in Atlanta to study medicine or dentistry, but his father was unable to help him financially because an investment in a grocery store had gone sour. So Greene proclaimed himself a barber and cut his fellow students' hair.

With part of the cash he got, he bought apparel seconds and resold them. From students who could not pay he accepted payment in textbooks, which he then resold. Then he saw an opportunity to corner the flower and corsage business on campus—he set up a card table in the cafeteria and took orders with a 50-cent deposit. "I would go and swing a wholesale price from the florists," he says.

Between his freshman and sophomore years, Greene tried working in the tobacco fields. He quickly decided that this wasn't for him and headed for Atlantic City, where he worked as a waiter in a hotel and even advanced to headwaiter that same summer.

On the side, he was still cutting hair, which brought him in contact with the hotel maintenance crews. That's how he learned that maids throw away used bathroom soap.

Greene came up with a system to collect the soap, and he set up operations in an industrial park. There he boiled, recolored and perfumed the soap, then poured it into molds of decorative shapes, flowers and such, for the five-and-dime store trade.

Eventually Greene graduated from Morehouse with a degree in mathematics, then entered Atlanta University and took the required courses for entry into medical or dental school. Howard University accepted him into its dental school, but Greene found his studies so demanding that he couldn't work enough to cover expenses, and his funds ran out one year later.

That's how he ended up working for the Defense Department from 1963 to 1965, when the entrepreneurial bug bit him.

His first office was in an old building in downtown Washington, and he often slept in his car in the parking lot next door rather than going home. IBS now rents two floors in an ultramodern building on the parking lot site.

"The Small Business Administration program for minority business was certainly a help," Greene concedes, but he emphasizes that he has been successful because he provided good service and tried to save the government money by not selling it something it did not need.

"People don't care anymore that your granddaddy was a slave," Greene says. "They want to know what you can do for them today. To survive in business, blacks will have to do the same things they have done in sports and entertainment. If you are three times as good, you can get half as far." □

—Grover Heiman

Suspense Over Withholding

Will Congress hold the line on the start of withholding of dividends and interest? Or will public wrath force a change?

THERE ARE MORE than 400 million interest-bearing accounts in the United States, according to financial industry sources. This month Congress is likely to get an earful from many of the account holders.

The subject of this anticipated wrath is the 10 percent withholding for taxes on interest and dividends, which Congress voted last year. The withholding is scheduled to take effect in July. Surveys have found that few people are aware of this. When the ignorant are enlightened, they frequently become angry. The financial industry, stuck with the paper work, is already angry.

Enlightenment is what the industry has in mind. Banks, savings and loans, credit unions and securities firms throughout the country have undertaken a massive public information campaign to tell their customers what is coming and to suggest they petition Congress for repeal.


PHOTO: WHITE HOUSE

President Reagan, who supports withholding on interest and dividends, shakes hands with David Hastings, who heads the American Bankers Association's drive against it.

The campaign is expected to peak soon, possibly within a few weeks. What happens after that, everyone agrees, will depend on the size and strength of the public outpouring. "If we don't have a strong grass-roots effort, Congress won't do anything," says David Hastings, a Richmond, Va., banker who heads an American Bankers Association task force on the issue.

(NATION'S BUSINESS readers voted 22 to 1 for repeal in response to the December "Where I Stand" question. See page 80.)

Congressional foes of withholding are eager to push for repeal. Two of the most active opponents of withholding last year—Sen. Robert W. Kasten, Jr., (R-Wis.) and Rep. Norman E. D'Amours (D-N.H.)—have repeal bills ready. More are expected.

In the past, bills opposing withholding on interest and dividends have picked up cosponsors as readily as picnics attract ants. When such withholding was proposed during the Carter administration, the House voted 401 to 4 to block it, and a Senate resolution of disapproval carried 67 cosponsors. Says Kasten: "It's as if there is some gremlin about three levels down at the Treasury from whom this scheme bubbles up once in every administration."

SO HOW DID IT GET passed as part of the Tax Equity and Fiscal Responsibility Act of 1982? "Timing," Kasten explains. "It came up and was adopted so fast that the financial industry had no chance to rally opposition."

The proposal did indeed have a peculiar—some say a suspicious—history. Reagan administration officials revealed their intention to seek 5 percent withholding on interest and dividends the day after the President's January 26 State of the Union address last year. Then, during a May 5 appearance before the House Ways and Means Committee, Treasury Secretary Donald T. Regan said the plan had been withdrawn. The industry relaxed its guard.

Nothing further was heard of the idea until the tax package that was to become TEFRA emerged from the Senate Finance Committee. In it was a proposal for 10 percent withholding on interest, dividends and pensions.

The administration and the Senate leadership closed ranks behind the tax package, arguing that it would all fall apart if individual pieces were voted on separately. An amendment to delete the withholding provisions, sponsored by Kasten and Sen. Ernest F. Hollings (D-S.C.), failed by a few votes. The House bucked the package directly to a conference committee, then passed the conference report without permitting amendments.

Ironically, nearly all the key people involved in passing the withholding plan had individually opposed it at one time or another. Kasten quotes President Reagan as saying that it was the part of the tax package he liked least. Regan and Internal Revenue Service Commissioner Roscoe L. Egger, Jr., both fought the Carter administration proposal, the latter testifying as a representative of the U.S. Chamber of Commerce. In the Senate, Majority Leader Howard H. Baker, Jr., (R-Tenn.) and Finance Committee Chairman Robert Dole (R-Kans.) were among cosponsors of the 1980 disapproval resolution.

But times change, and the same players who once effectively opposed withholding now appear equally committed to preserving it. Industry sources report high administration officials have threatened privately to impose new taxes on the banking industry to make up for any revenue lost by a repeal of withholding on interest and dividends. Dole has made such threats publicly.

However, the threats may be losing their power to motivate. "Most bankers expect the government to push for new


PHOTO: GEORGE TAMES

Sen. Robert Kasten argues that the July 1 withholding requirement "came up so fast that the financial industry had no chance to rally opposition."

taxes no matter what happens to withholding," says Fritz Elmendorf, a member of the Bankers Association staff.

There is great skepticism, too, about the withholding program's cost-effectiveness. IRS Commissioner Egger says that an estimated $8.2 billion in revenue was lost in 1981 because 9 to 16 percent of the taxable income from interest and dividends is not reported. The congressional Joint Committee on Taxation projects a $1.3 billion increase in revenue for fiscal 1983 from the start of interest and dividend withholding, and an annual average of $4.8 billion in added revenue for fiscal years 1984 through 1987.

Withholding's opponents call these figures inflated. They also ask why the same result cannot be attained through expanded information reporting, without withholding. ABA's Hastings points out that the compliance rate is 97.3 percent for taxes due on income subject to automatic reporting. Therefore, stiffer reporting requirements—which were also included in TEFRA—should capture most of the lost revenue that the IRS claims it will get from withholding, without the cost penalties that withholding imposes on financial institutions and honest taxpayers.

Those penalties can be significant. The National Association of Mutual Savings Banks estimates the costs of compliance for the financial industry at $2.3 billion for 1983 alone. To offset this cost, IRS rules allow a 30-day float between the time funds are deducted from a customer's account and the time they are transmitted to the Treasury. However, according to the NAMSB, the float will offset only about $1 billion of the cost.

Further, the float privilege ends after one year for large institutions ($1 billion or more in deposits), after two years for those in the $100 million to $1 billion class and after three years for those with less than $100 million.

Hastings, who is also a senior vice president and director of taxes at First and Merchants National Bank of Richmond, Va., says his bank—with deposits of about $3 billion—expects to incur costs of $1.5 million to institute withholding and to recover only $75,000 of that from interest on the float.

The potential damage to individuals is difficult to compute because of the numerous options involved. The paying institution may choose not to withhold on interest of $150 or less. Individuals with a tax liability of $600 or less ($1,500 if over 65) may file an exemption certificate, but this must be done annually.

Banks may choose to withhold periodically or on an annual basis on savings accounts and similar accounts, and they may also choose to take all of the withholding out of one account for an account holder with more than one account (which permits the funds to be

A Landslide Vote for Repeal

NATION'S BUSINESS readers have voted by a margin of 22 to 1 for repeal of withholding on dividends and interest. Their votes were cast in response to the December "Where I Stand" question (see page 80).

Many readers complain that withholding is unnecessary, since the federal government is already notified of interest and dividend payments. "Presently all institutions involved with the paying of interest or dividends file 1099 forms with the Internal Revenue Service, reporting amounts and recipients of these distributions," says Daniel Calabria, executive vice president of Lexington Management Corporation, of Englewood Cliffs, N.J. "The government already has this information."

Yvonne J. Page, manager of the Rogers Employees Federal Credit Union, of Rogers, Conn., is more blunt: "I say, get the IRS on the ball and cross-check those 1099s. They have had 20 years to check on 1099s, and it is about time their productivity increased."

Many readers are skeptical that withholding will increase the government's revenues significantly. "Those folks with significant income from interest and dividends are already paying IRS up front through their estimated earnings returns," writes Donald Branson of Ulmer Equipment Company, of Fenton, Mo.

Other readers are concerned about the costs that withholding will impose on small businesses and financial institutions, and about the negative effects on saving and investment.

"We have approximately 1,600 stockholders and have been paying annual dividends," writes Laurel J. Short, executive vice president and treasurer of Kingsford Packing Company, of Fort Wayne, Ind. "The reporting requirements and new forms will put a considerable burden on our company. The administration has declared that it favors eliminating unnecessary reporting burdens on small businesses. In my opinion, withholding is a giant step backward. It probably is not a big problem for General Motors or AT&T, but it certainly is a burden on our company."

Don W. McLeod, president of Albuquerque Phoenix Express, Inc., of Albuquerque, N.M., suggests that withholding on wages should be eliminated, too.

"Our forefathers fought against 'taxation without representation,'" he writes. "I believe we should fight against 'taxation without realization.' Any business person will tell you that the majority of employes do not realize what their true pay is, they only know what their take-home pay is."

If federal income taxes were paid in a lump sum once a year, he says, "working America would pay much more attention to how much our government is spending and what it is spending it on."

taken from a noninterest-bearing account). And, of course, individuals have some discretion in adjusting their overall withholding and their quarterly estimated tax payments.

Proponents of withholding point to this flexibility when accused of concocting a scheme to enable the Treasury to earn interest on money that rightfully belongs to the taxpayer. They also say that most people prefer to be overwithheld, a point others dispute. Opponents fear that less sophisticated taxpayers—particularly the elderly—will fail to exercise the rights they have and suffer accordingly.

IN VIEW OF ALL THE disadvantages, why does the government remain attached to withholding? First, the federal officials involved are as doubtful about industry cost estimates as the industry is about the government's revenue projections. Second, the Treasury apparently does not want to be bothered with having to match interest and dividend report forms (1099) against tax returns. Such matching now occurs with 100 percent of interest and dividend data submitted on magnetic computer tape, according to an IRS spokesman, but with "a much lesser percentage" of paper documents.

Rep. Norman D'Amours, a Democrat, is sponsoring a repeal bill in the House.

Says Richard Pokriefke, vice president of the NAMSB: "What they are doing is sloughing off on financial institutions the role of tax collector."

Industry representatives, however, do pay tribute to the IRS for being as cooperative as it can be in trying—within its legislative mandate—to meet industry objections. "Our problem is with Congress," Hastings says.

Will Congress act? It depends, as already mentioned, on the strength of the public reaction. Few experts doubt that withholding would lose if it came to a vote on the floor of either house. But will a repeal measure get out of committee?

"The problem is getting it past Dole and [House Ways and Means Committee Chairman Dan] Rostenkowski [D-Ill.]," observes an official of the National Taxpayers Union.

There are other obstacles. Congress is less sensitive to public pressure immediately after an election. Further, a titanic scrap over the fiscal 1984 budget, or Social Security reform, or both, could obscure what would otherwise be an effective protest against withholding. And finally, with Congress and the administration searching frantically for new sources of revenue, any proposal to part with revenue already expected will bear an extra-heavy burden.

But if any tax measure has a chance of being repealed, it is probably this one.

In the words of Sen. Kasten: "Withholding is one of the worst things you can do when you are trying to get the economy moving again. It is bad public policy, and it is bad politics." □

— Barry Crickmer

PHOTOS: THE PRESIDENT'S TASK FORCE

Taking The Private Road

As promised, the work of the Verity task force on voluntarism didn't result merely in a report. The group reported results.


With a $50,000 grant from the Gannett Foundation, volunteers of all ages provided the needed manpower to build this neighborhood park in Salem, Ore.


In Brooklyn, retired businessmen formed Geri-Pare, an organization that aids the elderly, disabled and poor by doing minor home repairs.

When President Reagan gave C. William Verity, Jr., the one-year job of heading a task force on private sector initiatives, his instructions to Verity were succinct: Get out there and make things happen.

Now, his assignment over, Verity has advised the President that things are indeed happening and that voluntarism is alive and well in America.

"There is one legacy that this President will leave," says Bill Verity, who is chairman of the executive committee of Armco, Inc. "It is the rekindling of the American tradition of private sector initiative to solve our economic and social problems."

Early last December, Verity sent the President a letter in which he noted that the task force's "mandate is ending successfully as you intended: to report results as opposed to resulting only in a report."

One result that Verity likes to cite is what happened in Monroe, Ohio.

Residents of that town were unhappy with their losing high school football team. A new coach recommended building a physical-conditioning facility complete with weight-lifting gear, to increase the players' strength. The cost was put at $50,000, and the school board didn't have the money.

"Why don't we do it ourselves?" football boosters of Monroe asked when they gathered for a barbecue at the home of barber Robert Youstler. They raised money and, using volunteer labor, built the facility.

The boosters weren't through. The boys' locker room was repaired and repainted. Then the girls' locker room was refurbished. Then townsfolk concluded that if they were going to have a winning football team, they shouldn't have a shabby stadium.

"So, 200 men and women and young people showed up and in one day repainted the stadium," Verity says. "But they still weren't through. They then repainted the school. That's just one example of private initiative."

One of the task force's missions was to identify examples of successful or promising private initiatives and private-public partnerships, summarize them and put the summaries into a computerized data bank. The data bank would be available to groups that wanted blueprints for similar efforts.

"The summaries are the key feature," says Neil Hepp, who was on loan to the task force from Mobil Corporation. Hepp's data-bank operation filled the basement of the task force's headquarters a block from the White House and spilled into the townhouse next door, where volunteers made calls all over the country to collect information.

This data-gathering was covered by the task force's $1.2 million budget, of which only $105,000 came from the federal government. The remainder came from private contributions.

"The data bank will keep people from reinventing the wheel," says Verity. As he recommended to the President, the data bank will be continued and expanded under Partnerships Dataline USA, a new private organization.

The Washington-based Citizens Forum on Self-Government, formerly the National Municipal League, will manage the data bank. The Washington offices of Partners for Livable Places, a 400-member group that focuses on improving the quality of community life, will be the data bank's home.

Both organizations are contributing $100,000 annually for three years toward the estimated $600,000 yearly operating costs. The balance will be solicited from corporate, foundation and government sources.

Partnerships Dataline USA expects that by the fourth year user fees and contributions will cover operating costs.

The 2,500 examples in the data bank

are only the tip of the iceberg. Jerry Guth, the task force's executive director, on loan from Armco, Inc., believes that many thousands more private sector initiatives can be located and put into the data bank to serve as models.

"A big problem is modesty," Hepp says. Quite often, he explains, private sector initiatives "are by businesses that want to maintain anonymity." Verity confirms this. "People are doing a lot of things and not asking for recognition. They don't want flags raised."

From the data bank come many examples of the old barn-raising spirit of Americans. In fact, in Noble, Okla., a dilapidated barn was converted into a senior citizens center by volunteers. In Pensacola, Fla., volunteers put a new roof on the home of Mildred Anderson, a 62-year-old diabetic unable to work.

Sometimes, such volunteer efforts mushroom into a national movement, as in the case of Irving Fradkin of Fall River, Mass. Fradkin, 62, an optometrist, started his own data bank of a sort in 1957, when he lost a school board election. He had run on a platform of finding financial aid for local students who wanted to go to college, but he didn't give up his idea after his defeat.

He formulated the Fall River Plan—membership in a citizens' scholarship foundation for $1. Under his leadership, volunteers raised $4,500 in the first year. Other communities heard of his plan and asked how they could organize a similar drive. Fradkin helped, closing his one-man business for days at a time.

By 1961, 21 cities had adopted Fradkin's program. Fradkin couldn't meet the growing demand for organizational help alone and still support his family, so he established the Citizens' Scholarship Foundation of America. In 25 years, 195 foundation chapters in 35 states have raised $25 million to provide scholarships for 100,000 students.

Now chairman emeritus of the foundation, which is headquartered in Manchester, N.H., Fradkin won't be content until there are 1,000 chapters and every state is represented.

THE FRADKINS of America delight Verity. "The American people have become addicted to federal handouts," he says. "Now they are beginning to realize that government has been trying to do too much and that they must take the responsibility and get things done.

"I see it happening all over this magnificent country. There is a definite trend in America toward voluntarism. It is neighbor helping neighbor."

In addition to recommending that his 44-person task force self-destruct as planned on the last day of 1982, Verity

Summing up his task force's findings, C. William Verity says the spirit of voluntarism remains strong in America.

urged that the President "continue to articulate the need for increased private sector initiative in every aspect of our nation's life and that you continue to urge all community leaders to join in local partnerships."

President Reagan launched the task force with a luncheon at the White House on Dec. 2, 1981. Since then, more than 35 private sector groups have trooped to the White House to hear the President urge them to help find new ways to meet the needs of America.

Verity cites as one example of the desire to break away from reliance on government a decision by the Jacksonville, Fla., Area Chamber of Commerce.

Big Business

Just how big is voluntarism in the United States? Here are some statistics from the President's task force on private sector initiatives:

- More than 55 million Americans volunteered for community service in 1981. More than half gave at least five hours a week.
- More than 425,000 private organizations are providing job training and placement, health care, transportation, education, housing, nutrition, senior and youth activities, legal and consumer advice and many other services.
- Together, these private initiatives constitute a $150 billion annual enterprise.

It turned down a $97,000 contract with the city and Leon County to answer inquiries from out-of-towners, provide area maps and perform other services. The chamber will furnish these services—but out of its own funds.

BUSINESS ORGANIZATIONS around the country are fostering partnerships between the private sector and local governments. One of Verity's favorite examples is the Dayton, Ohio, Area Progress Council established by business leaders to promote urban economic development. Through this council, business leaders met with local government officials; now other groups, representing interests like religion and labor, have been brought into the partnership. Similar partnerships exist in San Francisco, Cincinnati, Seattle and elsewhere.

Verity and his task force have recommended that corporations try to double their charitable contributions over the next four years, to about $6 billion annually, by raising their level of giving to at least 2 percent of pretax profits. The task force has also urged businesses to double their in-kind contributions over the next four years. This would raise the value of such contributions to about another $6 billion annually.

Certain that President Reagan will continue to emphasize private sector initiatives, Verity in a December 8 letter to the President proposed the creation of an interagency committee chaired by a cabinet member. This group, he said, should encourage "increased sensitivity in policy making to impacts on initiative, voluntarism and private sector involvement."

Verity also proposed that the President create a bipartisan advisory council on private sector initiatives, composed of no more than 15 distinguished individuals. "This new council should meet regularly with you to review private sector goals and objectives for your administration."

Soon after receiving the recommendations from Verity, President Reagan announced that he would create such a bipartisan advisory council.

Early this year, he is expected to create an interagency committee and to expand the scope of the White House office on private sector initiatives.

At a White House luncheon held for the task force in December, the President said: "You have all set the stage for a rebirth of creative approaches to meeting human needs."

Borrowing from John F. Kennedy, Reagan said that Americans need to look "not to what government can do to help, but what we can do to help ourselves." □

—Grover Heiman

Making A Living By Saving Lives

Someone about to have a heart attack or stroke would do well to have it where Lucille Niebur has been.

Niebur, 44, is founder and owner of Emergency Skills, Inc., which contracts with companies to teach their employes how to respond to medical crises. In five years the client list has grown to more than 60 companies, many of them giants like Chemical Bank of New York, Lever Brothers, IBM and Western Union International.

"You'd be surprised how our program stimulates employes' loyalty and morale," Niebur says. Most of all, it saves lives, at the office and at home.

Companies find the program well worth the cost—$200 per employe enrolled.

"I usually make the initial contact with a prospective client," says Niebur, who has four employes in her New York City office. "If the company is interested, I schedule a motivation meeting for the employes."

At the meeting she explains her "Alive" program, encouraging employes to sign up for 24 hours of instruction in dealing with seizures, strokes, bleeding, shock, choking and other emergencies.

The courses, usually broken down into eight three-hour sessions, are held on company premises during company time or off-hours, whichever the employer desires.

"We have three full-time instructors and 30 part-time instructors, all with credentials from the American Heart Association," says Niebur. "The hardest part of my job, really, is finding qualified instructors who can communicate well."

Lucille Niebur's lifelong interest in health and emergency aid led her to start her own firm, Emergency Skills, which contracts with businesses to teach life-saving procedures to workers.

PHOTOS: EMERGENCY SKILLS

Niebur has worked in the health field all her adult life, first with Blue Shield and later at a major New York hospital, where she was involved in a program to train emergency medical technicians. That gave her the idea to start Emergency Skills, Inc., in 1977.

"Over the years I have put some $30,000 into the company," she says. "The first four years I operated at a loss or broke even. Last year I started making a profit."

So far all of the company's work is in the Northeast, but she is planning to open branches in other parts of the country.

She is enlarging the program, too, planning seminars on health aspects of retirement, physical fitness and eating habits.

Niebur's Emergency Skills apparently has filled a void in the corporate world; her staff in recent months has had seven company training programs going on simultaneously.

She has just signed up the United Nations, a world organization with a spotty record for treating the world's ills. Niebur will be training the entire UN security force to be knowledgeable and responsive to, at least, individual emergencies.

Photo-Booth Firm: No Flash in the Pan

Howard Danzig says he can't tell "a darkroom from a lunchroom." Yet the growth record of Flash Cube, Inc., a company he founded and owns, makes a pretty picture.

Danzig, 36, has a string of Flash Cube drive-up booths in shopping centers scattered across 10 states. The booths, which measure 6 by 10 feet, offer photofinishing, newspapers and magazines, and tobacco products.

And, in particular, they offer easy shopping—"not discounts, but convenience," Danzig says. A Flash Cube is convenient not just for amateur photographers but for anyone who wants his own business. Of Danzig's 72 outlets, 64 are franchise operations.

"I started this business because I knew I'd be happier as my own boss," says Danzig, who has 40 employes in his St. Louis headquarters.

While Danzig was working as a St. Louis airport parking lot manager, he moonlighted as a runner for film between area drugstores and photofinishers. The part-time enterprise cost him only gasoline.

Danzig quickly figured out it wouldn't take much—a small drive-up booth in a shopping center parking lot—to get people to bring their film directly to him. That idea, in 1977, plus $10,000 of Danzig's own money, materialized into the first Flash Cube drive-up.

In all, he opened eight stores in the St. Louis area between 1977 and 1980 before launching the franchise operation.

Flash Cube charges a $24,900 turn-

key dealership fee, of which Danzig will finance $6,400. He also recommends that franchise owners begin with a minimum of $3,000 in working capital.

The company requires that a franchisee pay it 2 percent of gross annual sales. In return the company provides site construction, staff training and an accounting system. The parent also assists new dealers with a four-week introductory advertising campaign and later provides co-op advertising services.

Based on performance of existing Flash Cube drive-ups, Danzig estimates gross sales for a franchise at $149,000 the first year, $183,000 the second year and $222,000 the third year.

Annual projected net profit, he says, is $9,500 the first year, $19,500 the second and $26,000 the third.

"We have some successful owners who devote as little as five hours of spare time each week to the operation, preferring to hire an employe," he says. "Others employ family members or friends to run the store."

Danzig admits his business is like that of a better known company in the field, Fotomat. "We just added a little bit to it" in the form of the additional products the Flash Cubes sell, he says.

At a Tennessee franchise, the "little bit" is a service station. "Frankly, I'm looking at any product that will bring customers back day after day," Danzig says.

"By the end of this year I hope to double the number of franchises. I'm just getting started."

Started by Howard Danzig, Flash Cube drive-ups offer photo processing and "extras" at 72 outlets in 10 states.

Over the Counter, Around the World

Business proved more interesting than practicing medicine to William F. Kremer, so he organized a corporation to seek out products for pharmaceutical companies.

Travel is broadening, the saying goes. As the case of Dr. William F. Kremer demonstrates, it can also be materially enriching.

The Dutch-born Kremer, 63, left the practice of medicine for the potentially more lucrative world of business. He is an international consultant to some of the world's largest pharmaceutical companies.

Kremer made the switch in 1963, when he founded Pharmaceutical Research and Products Consultants in Hartsdale, N.Y. The firm responded to the desire of pharmaceutical companies in Europe and Japan to know what new products were being researched and produced by pharmaceutical companies in the United States. He also looks for products selling profitably on one continent that might be successful on another continent.

An example: Healthbreak, a chewing gum created by a pharmaceutical firm in Holland and aimed at cigarette smokers who want to quit. Kremer persuaded Lemar Laboratories of Atlanta to add it to Lemar's line of products.

About the same time, Rorer Company in Fort Washington, Pa., was searching for a laxative to add to its gastrointestinal product line. Through Kremer it acquired Western Europe's popular Agiolax, made by a German firm.

Today, Rorer markets Agiolax in the United States as Perdiem. Sales the past 18 months: over $6 million.

"I don't operate as a broker but as a consultant," Kremer says. "I bring together different pharmaceutical companies and their products.

"More importantly, I advise pharmaceutical companies in, say, Japan on what new products are being researched and the success or failure of that research in the United States and Europe."

At the moment, he serves nine major pharmaceutical companies worldwide. He has representatives in Britain, France, Holland, Germany, Italy, Switzerland, Japan, the Scandinavian countries and the Middle East.

Kremer, who is fluent in five languages, worked in European resistance movements during World War II. After arriving in the United States in 1945, he practiced medicine and continued his research studies at hospitals and universities in Baltimore, New York and Pittsburgh.

Then he worked on the staffs of large pharmaceutical firms like Geigy and Wampole, where he decided that marketing, promotion and the business end of medicine were more provocative than diagnosing ailments.

"The traveling can be tiring, so I have rearranged my schedule somewhat to spend more time on my farm in Maryland," he says. But he is not ready to retire. Finding and evaluating new medical products still challenges him too much for that. □

Social Security At the Brink

IT'S NOT AS IF Congress hasn't had more than adequate warning that the Social Security system is heading for serious financial problems. In an analysis based on talks with key members of Congress itself, as well as with other experts, NATION'S BUSINESS told its readers more than eight years ago:

"There is now a growing awareness that the Social Security system is being strained by the constantly growing demands on it and is headed for a financial crisis that can be resolved only through major tax increases—even beyond the hefty ones now scheduled—or by a restraint on future benefits increases or a combination of both."

Today the crisis is at hand. Congress has procrastinated on this issue in hopes that a politically safe solution would present itself.

There is no such easy out. Congress must make difficult decisions in the knowledge that any reforms will anger taxpayers or beneficiaries—or both groups. The real challenge is not finding the least painful political solution but finding one that is the most equitable to all groups concerned and, equally important, does the least harm to the national economy.

In the long run, it is the condition of the economy that will determine whether there will be sufficient jobs to generate the revenues needed to keep the retirement system going.

Business is supporting a Social Security rescue plan designed to preserve the system without putting unacceptable new strains on the overall economy (see pages 24-27). Any other approach would represent more of the temporizing that has brought the system to the brink of bankruptcy.

A Law That Causes Jobs To Be Lost

ORGANIZED LABOR'S intransigent stand on the Davis-Bacon Act puts the unions in an increasingly contradictory position.

The AFL-CIO is among the loudest of the pressure groups demanding federal action to create jobs in the face of double-digit unemployment figures. At the same time, it insists on retention of Davis-Bacon, which reduces job opportunities by driving up construction costs.

Under this law, contractors must pay the local prevailing wage—which translates in practice into union wage scales—on projects that involve federal financing or loan guarantees.

Davis-Bacon requirements are being challenged with renewed intensity in view of the \$5.5 billion construction program to be financed by the fuel tax increase that Congress recently enacted. The money will be spent on reconstruction and repair of highways, bridges and transit systems.

Sponsors of the tax increase legislation said it could lead to the creation of 320,000 jobs. Various business groups point out, however, that an additional 40,000 jobs would be created for the same amount of money if the planned projects were exempted from Davis-Bacon requirements.

Congress refused to include such an exemption when it approved the higher taxes. It should return to the issue of this job-destroying law at the earliest opportunity.

Management Mess In Washington

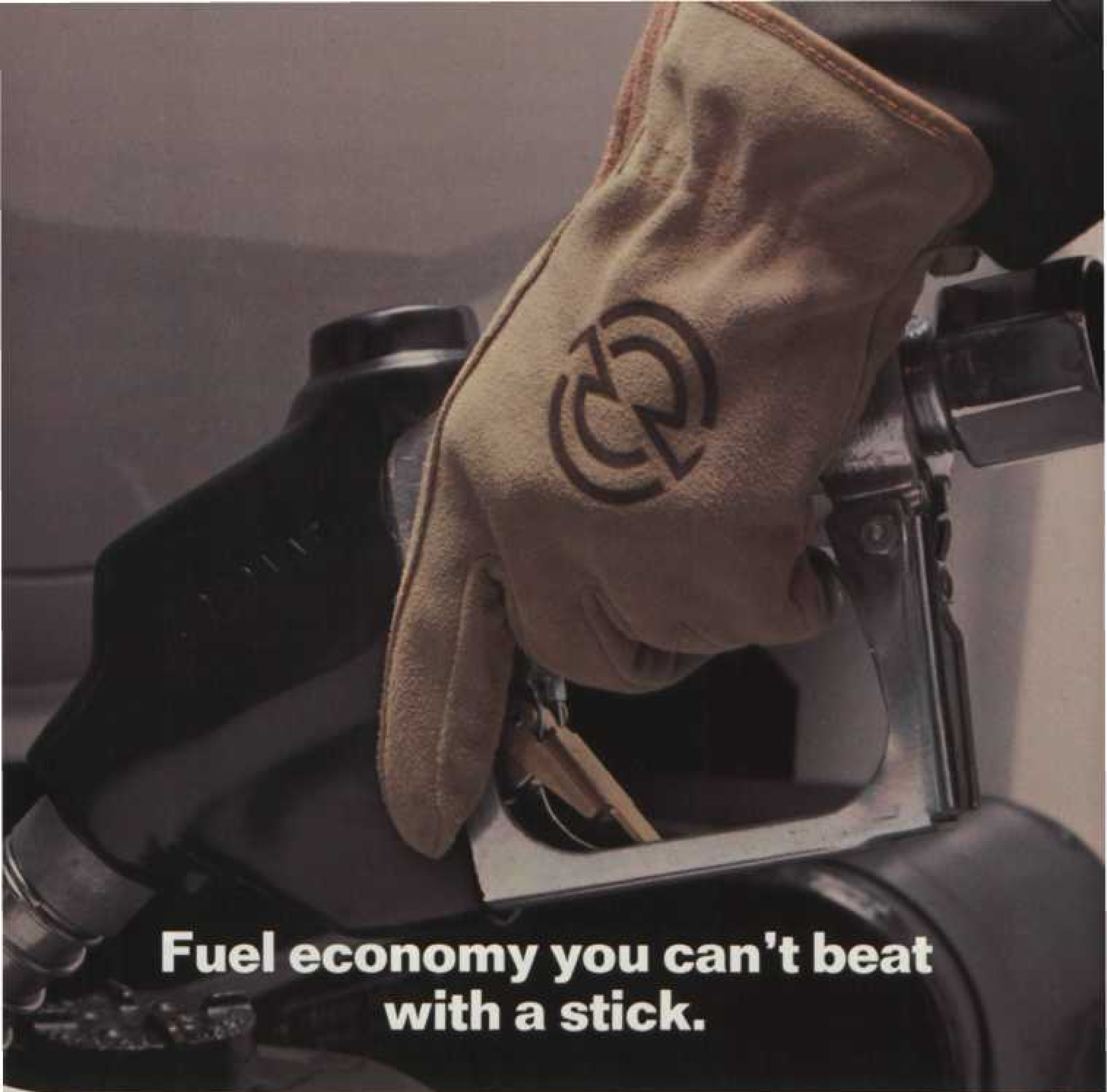
THE Office of Management and Budget obviously has two major responsibilities, but the latter has been allowed to overshadow the former in recent years. That's unfortunate, because the effectiveness of any budget Congress passes must depend on the follow-up process through which the money is actually spent.

Inefficient or nonexistent management controls over individual transactions can undermine the best-intentioned efforts to restrain spending.

Those considerations were in the forefront of the Reagan administration's thinking when it launched Reform '88, a six-year plan to save billions of dollars through improved management techniques in the federal government. OMB is carrying out that project. (For details, see article beginning on page 32).

One example cited in the article spotlights the problem: With a total annual cash flow of \$1.75 trillion, federal agencies often hold checks for weeks, losing hundreds of millions in interest.

The administration deserves the appreciation of the business community for taking a significant initiative. □



We've got the test results to prove it, and they're certified by the United States Auto Club (USAC).

In two tests, USAC officials supervised a fuel efficiency comparison between van type delivery trucks, identical except for transmissions. In each test, one truck was equipped with an Allison Automatic, the other with a manual transmission. Results of the testing showed the trucks equipped with Allison Automatics topped the fuel economy of the stick equipped trucks!

What's more, preliminary results from fleet tests going on right now show that Allisons, on the average, turn in fuel economy equal to manual transmissions... and often better!

Why? Because with an Allison Automatic, the vehicle is always in the right gear and engine RPM range. That means fuel efficiency, especially if you operate in hilly areas or congested cities.

But there's more to Allison economy than just good mileage.

An Allison Automatic all but eliminates the driveline damage normally caused by constant manual shifting. There's no clutch repair or replacement costs either.

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So give up the stick for good and get great fuel economy from your fleet with tough, dependable Allison Automatics. On hand now for immediate delivery.

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